Docket:	:	A.15-07-019
Exhibit Number	:	ORA - ____
Commissioner	:	M. Florio
Administrative Law Judge	:	G. Weatherford
ORA Witnesses	:	E. Odell M. Dawadi S. Rose

Report and Recommendations

on

Application 15-07-019

San Francisco, California

February 16, 2016

TABLE OF CONTENTS

MEMORANDUM

A team of auditors, regulatory analysts, and utility engineers from the California Public Utilities Commission's Office of Ratepayer Advocates ("ORA") examined the requests and data contained in California American Water's ("Cal Am" or "CAW") Application ("A.") 15-07-019 in order to provide the Commission with recommendations that represent the interests of ratepayers for safe, reliable and affordable service at lowest cost. Mr. Danilo Sanchez is the Program Manager and Mr. Richard Rauschmeier is ORA's oversight supervisor. Ms. Eileen Odell is ORA's project coordinator for the proceeding. Ms. Kerriann Sheppard is ORA's legal counsel.

The table below identifies the names of ORA witnesses and the sections of this report for which they are responsible. A statement of qualifications for each ORA witness is presented in Appendix A to this report.

Section	Description	Witness
-	Executive Summary	Eileen Odell
Chapter 1	Rate Design	Eileen Odell
Chapter 2	WRAM/MCBA Balance and Amortization Review	Mukunda Dawadi
Chapter 3	Sales Reconciliation Mechanism	Suzie Rose
Chapter 4	Rule 14.1.1 Modifications	Eileen Odell
Appendix 1	Statements of Qualifications	All

Although ORA made every effort to comprehensively review, analyze and provide the Commission with recommendations on each ratemaking and policy element presented in Cal Am's application, the absence from ORA's reports of any particular issue does not necessarily constitute ORA's endorsement or acceptance of the underlying request, methodology, or policy position related to that issue.

EXECUTIVE SUMMARY

California American Water Company ("Cal Am") filed Application ("A.") 15-07-019 on July 16, 2015. In its application, Cal Am requests authorization to modify its rate design, to change its water revenue adjustment mechanism ("WRAM") and modified cost balancing account ("MCBA") surcharge collection, to implement an annual consumption true-up mechanism ("sales reconciliation mechanism" or "SRM") and to revise its Rule 14.1.1 Conservation and Rationing Plan.[1] All requests pertain to Cal Am's Monterey District, often referred to as its Central Division.[2]

Phase I of this proceeding concerns Cal Am's request to eliminate its outdoor landscaping allotment, one aspect of its residential rate design. The Office of Ratepayer Advocates ("ORA") submitted its Phase I Report on November 13, 2015. All remaining issues, including the WRAM balance and amortization issues, additional rate design requests, the SRM and Rule 14.1.1 modifications are encompassed within Phase II and analyzed in this report.[3]

ORA examined Cal Am's testimony, responses to discovery, as well as various other resources, testing for reasonableness and prudency, to form its recommendations. The following is a summary of the foremost differences between Cal Am's requests and ORA's recommendations.

---

[1] Application ("A.")15-07-019, Application of California American Water Company (U-210W) for Authorization to Modify the Conservation and Rationing Plan, Rate Design, and Other Related Issues for the Monterey District. Filed July 16, 2015.

[2] Here, the requests pertain to the Monterey Main, Bishop, Hidden Hills, and Ryan Ranch systems. "The Application is not applicable to the sub-systems of Toro, Ambler, Chualar, Ralph Lane or Garrapata." *Id.* at 1, n. 1.

[3] Assigned Commissioner's Scoping Memo and Ruling, A. 15-07-019, issued Nov. 14, 2015, at 8.

WRAM Balance and Amortization

ORA recommends a disallowance of $17.39 million of the currently-reported $40.6 million Monterey WRAM balance, as this portion of the current balance is reasonably attributable to lack of adequate management oversight of the allotment system, discussed in-depth in ORA's Chapter 1 on Rate Design. ORA further recommends that the amortization occur over five years with no interest allowed, rather than over 20 years at 8.41 percent, Cal Am's currently-authorized rate of return, as requested by the utility.

In consideration of the significant problems with Cal Am's calculation of Monterey WRAM balances, which only came to light as a result of the time for analysis afforded by this formal proceeding, ORA also recommends that any and all future requests by Cal Am to recover future Monterey WRAM balances be made in applications and not through the informal process of filing advice letters with the Commission.

Rate Design

Consistent with Cal Am's requests, ORA recommends eliminating of the allotment system as well as using 2014 actual consumption as the basis for the rate design, in place of the authorized 2016 estimate. ORA also agrees with Cal Am that the Commission should authorize Cal Am to recover a greater proportion of its fixed costs through monthly meter charges.

ORA recommends, however, that Cal Am be required to shift roughly 8.4 percent or $3 million of the amount of revenues currently recovered by residential rates to non-residential rates, to more equitably reflect each customer class's proportion of total consumption. ORA also makes additional rate design recommendations to maintain strong conservation price signals in Monterey.

Rule 14.1.1

The Commission should adopt Cal Am's proposed changes to Rule 14.1.1, with modifications made to reflect ORA's proposed rate design. ORA further recommends that the Commission require Cal Am to clarify its Rule 14.1.1, to state that emergency conservation rates are activated when Stage 3 of its proposed Rule 14.1.1 is activated. Further, the Commission should require Cal Am to file a Tier 2 Advice Letter not only when activating an elevated stage, but also when increasing emergency conservation rates from the proposed Level 1 Conservation Rates to the proposed Level 2 Conservation Rates.

Annual Consumption True-Up Program

The Commission should deny Cal Am's request for an annual consumption true-up pilot program. The program does not provide significant ratepayer benefits, does not have significant precedent, was denied in a previous Cal Am request, and represents a larger-scale policy issue that the Commission is currently examining in a multi-utility rulemaking proceeding.

CHAPTER 1 : RATE DESIGN

I. INTRODUCTION

Rate design is the process of setting prices for utility service at a level which permits the utility to collect its total authorized revenue requirement. After calculation of a utility's revenue requirement, a rate design that incorporates estimates of customers and their future consumption level is used to determine the actual rates the utility customers will be charged for service. Different rate structures may be used to collect what is determined to be the appropriate level of revenues from the various types of customers a utility serves.[4]

In addition to modifying its rate structure, Cal Am requests modifications to the estimates of future residential consumption authorized in its last rate case,[5] though its estimates of nonresidential consumption and future customers remain the same.[6] Cal Am is not requesting a change to its revenue requirement; rather, Cal Am states that this application is necessary now, outside of the general rate case ("GRC") cycle, because its "current rate design has made it impossible to recover the [authorized] revenue requirement in a timely manner."[7]

[4] BILL ZIEBURTZ, MANUAL OF WATER SUPPLY PRACTICES (M-1): PRINCIPLES OF WATER RATES, FEES, AND CHARGES 8 (American Water Works Association, Sixth Ed., 2012) (1954).

[5] *See* Decision ("D.") 15-04-007, Attachment A-4. Total authorized 2016 residential consumption is 3,235,766 CCF (24,205,210.60 CGl). Total authorized 2016 residential consumption for the subsystems at issue in this application is 3,131,517 CCF (23,425,373.92 CGl).

[6] Application ("A.") 15-07-019, Application of California American Water Company (U-210W) for Authorization to Modify the Conservation and Rationing Plan, Rate Design, and Other Related Issues for the Monterey District at 6. Filed July 16, 2015 (hereinafter CAW A.15-07-019).

[7] *Id.* at 5. *See also* CAW Direct Testimony of Sherrene P. Chew at 20.

II. SUMMARY OF RECOMMENDATIONS

The Commission should authorize Cal Am to modify its rate design, shifting from an allotment-based inclining block design to ORA's recommended standardized inclining block rate design. ORA agrees with Cal Am that the current rate design is overly complex, susceptible to abuse, and can present challenges for the stable collection of authorized revenues. ORA's recommended standardized inclining block rate design realigns cost-recovery with consumption, maintains strong conservation-oriented price signals, and promotes revenue stability. ORA's major recommendations include:

a. Realigning cost allocation by moving 8.4 percent or approximately $3 million of forecasted revenue collection from residential to nonresidential rates in order to achieve proportionality between consumption and cost recovery;
b. Reducing the recoverable portion of the current WRAM balance by $17.39 million, an amount reasonably representing the portion of the balance caused not by reduced consumption but by a lack of adequate management oversight of the allotment system;
c. Consistent with Cal Am's requests, eliminating the allotment system for residential customers, collecting 30 percent of fixed costs by service charges, with the remaining 70 percent of fixed costs and 100 percent of variable costs collected through volumetric charges, and using 2014 consumption estimates as the basis for the residential rate design;
d. Modifying Cal Am's proposed rate design to effectuate ORA's proposed shift in cost recovery, standardization of meter charges, and the balance between revenue stability and the need to maintain strong conservation price signals through steeply tiered-rate differentials.

III. DISCUSSION

A. Cal Am's Current Rate Design and Summary of Requests for Modifications

As described in ORA's report in Phase I of this proceeding, Cal Am has separate rate designs for non-residential and residential customers in its Monterey District.[8] Cal Am's current residential rate design[9] is conservation-oriented, with 15 percent of fixed

[8] Cal Am also has a class referred to as its mixed use customers. Cal Am currently has 59 mixed use customers. In 2014, these customers consumed 287,020 hundred cubic feet ("ccf") (2,147, 059 hundred gallons, "CGl"), approximately one tenth of the consumption exhibited by residential customers in 2014. Customers considered mixed use range from retirement communities to an animal supply and feed store. CAW Response to ORA DR EO2-005, Q006, *Mixed Use Consumption.xlsx*. The rate design for mixed-use customers has, in the past, been based on "calculating and adding together a residential and non-residential allotment." A.13-07-002, CAW Rebuttal Testimony of David P. Stephenson at 60. However, non-residential allotments were eliminated in D.13-07-041. D.13-07-041, Attachment A, at 3, ("Current Monterey Main System Rate Design"), and 12, ("Non-Residential Customers – Monterey District"). After the elimination of the non-residential allotments, mixed use customers had allotments based on "the number of people and the prior historical determinate for the various business activities." *Id.* at 60.

Cal Am has presented no information regarding the proposed rate design of mixed use customers after residential allotments are potentially replaced with standard inclining blocks. It is unclear whether mixed use customers will continue to be billed on an allotment basis and whether this would be justified, with regards to Cal Am's stated opposition to continuing an allotment-based rate design. The Commission should require Cal Am to review its mixed use customers and their proper classifications and address the rate design for its mixed use customers in its upcoming GRC.

[9] D.15-04-007 Adopting the 2015, 2016 and 2017 Revenue Requirement for California-American Water Company approved a settlement between Cal Am and ORA in Cal Am's last rate case. The settlement, included as Attachment A to that Decision, maintains Cal Am's general metered rate design for Monterey with the same parameters as those agreed to in the previous rate case settlement. D.15-04-007, issued Apr. 10, 2015, at Att. A, 70-71. This settlement, however, mistakenly states that it maintains the parameters of D.12-11-006. D.12-11-006 Adopting the Rate Design Settlement Agreement for California American Water Company's Larkfield, Los Angeles County, San Diego County, and Ventura County and the Toro Service Area of the Monterey County District (2012 Larkfield Settlement) *does not contain rate design parameters for the Monterey District*.

The 2012 Larkfield Settlement resolved issues pertaining to *some of Cal Am's districts*, including the Toro Service Area of Monterey, posed in Cal Am's A.10-07-007, Cal Am's next earlier GRC Application. A.10-07-007's *Monterey Main,* (including Bishop, Hidden Hills, and Ryan Ranch) and Ambler Park, Ralph Lane and Chualar rate design issues were actually resolved in D.13-07-041, Adopting the Settlement Agreement Between California-America Water Company, the Division of Ratepayer Advocates, the Monterey Peninsula Water Management District, et al., on A. 10-07-007 Phase 2 Issues, issued Aug. 5, 2013. The rate design described in this report as Cal Am's current rate design stems from this D.13-07-041 settlement agreement.

costs recovered in monthly service charges[10] and the remaining 85 percent of fixed costs and 100 percent of variable costs recovered in volumetric charges. The rate design also features a steeply-tiered, allotment-based inclining block rate structure. Customer-specific allotments for household size, lot size,[11] and the number of large animals present on the lot are determined by customer survey responses; the allotments set the blocks' widths, changing the amount of water each customer may purchase at each rate. This rate design applies to both multi-residential and single-family residential customers.[12]

Cal Am requests to modify its residential rate design in the following ways:[13]

a. to shift from the allotment-based inclining block rate design to a standard inclining block rate design;
b. to differentiate between multi-family residential rates and single-family residential rates, with decreased block-widths and base rates for multi-family residential customers;[14]
c. to increase the percentage of residential fixed costs recovered in residential service charges, from 15 percent to 30 percent;
d. to modify the methodology for determining meter rates and the ratios between the service charges applied to each meter size;

[10] D.13-07-041, Att. 1 at 6.

[11] The elimination of the outdoor landscaping allocation was reviewed in Phase I of this proceeding.

[12] *See* A.15-07-019 ORA Report and Recommendations on Cal Am's Request to Modify its Rate Design in Phase I at 4-8, filed November 13, 2015, for illustration of Cal Am's current residential rate design.

[13] *See* CAW Direct Testimony of Sherrene P. Chew.

[14] While Cal Am proposes that multi-residential and single family residential customer have separate rate designs, all other requests regarding rate design changes (e.g., compressed tier differentials, recovery of 30 percent of fixed costs in service charges, and use of actual 2014 consumption and consumption by tier as the bases for the rate design) would apply to both single family and multi-family residential customer under Cal Am's proposed rate design.

e. to use actual 2014 consumption and consumption by tier as the basis for the proposed rate design, replacing residential consumption estimates and per-tier consumption estimates authorized in the previous rate case;
f. to compress the tiered rate differentials for residential rates, reducing the spread between rates paid for lower and high-tiered consumption;
g. to adjust the Low Income Credit Program to reflect other proposed rate design changes.

In general, Cal Am states that these changes are necessary because the current rate design is "far too complex," Cal Am has limited ability to verify the accuracy of the allotments, the rate design creates "billing and customer service issues," is not equitable, and "does not permit the timely recovery of the revenue requirement."[15]

Cal Am's current non-residential rate design applies to commercial, industrial, irrigation, and public authority customers, as well as to golf courses. Monthly service charges are designed to recover 30 percent of fixed charges. The remaining 70 percent of fixed costs and 100 percent of variable costs are recovered through volumetric charges. Volumetric charges are based on four uniform-rate divisions. Cal Am assigns each customer to one of the four rate divisions based on responses to a customer survey, which requests information regarding the customers' level of compliance best management practices ("BMPs") and the percentage of a customer's premise that is irrigated. The customer then pays that division's uniform rate for each unit of consumption.[16]

[15] CAW Direct Testimony of Sherrene P. Chew.at 10.
[16] D.13-07-041, Att. 1 at 14-15.

Cal Am requests modifications to the non-residential division rates in this application, increasing them by "approximately 1 percent," in order "to maintain revenue neutrality principles based on the CPUC's prescribed standard rate design."[17]

B. The Commission Should Replace Cal Am's Current Allotment-Based Residential Rate Design with ORA's Proposed Standardized Inclining-Block Rate Design

The Commission should adopt ORA's proposed rate design. ORA's proposed rate design incorporates many of Cal Am's requests, including the overall request to shift from the allotment system to a standard inclining block system. ORA's proposed rate design balances a number of concerns, eliminating the potential for abuse of the allotment system and increasing revenue stability, while better aligning consumption and cost recovery across customer classes and maintaining strong conservation price signals.

This section begins by describing two initial concerns with Cal Am's current rate design which are not completely addressed by Cal Am's requests in this application: (1) the existing disproportionality with regard to cost allocation between non-residential and residential customers (a condition exacerbated by Cal Am's proposed rate design) and (2) abuse of the residential allotment system. The section continues by describing Cal Am's proposed rate design, each request's effects on residential rates, and ORA's recommended modifications to Cal Am's requests.

[17] CAW Direct Testimony of Sherrene P. Chew at 43.

1. Cal Am's Rate Design Perpetuates the Existing Disproportionality between Residential Consumption and Responsibility for Cost Recovery

The Commission should adopt ORA's proposed rate design because it equitably realigns cost recovery across customer classes with each customer class's proportion of consumption. In its analysis and report filed in Cal Am's last GRC, ORA analyzed the distribution of Cal Am's revenue requirement across customer classes in all of Cal Am's districts.[18] While Cal Am has previously testified that, at that time, each class paid a proportionate share of revenues approximately equal to its proportionate share of usage,[19] ORA found in the 2013 GRC that this was no longer the case. Cal Am collected a greater portion of total revenues relative to consumption from residential customers in most of its districts in 2012 and the divergence in proportionality would increase in 2015 under the then-proposed rate designs.[20] The Monterey district displayed the most dramatic example of this disparity. In examining actual consumption and revenue results from 2014, ORA found that the disparity continued, with residential customers responsible for 65.3 percent of consumption and 66.2 percent of revenues.[21], [22]

[18] A.13-07-002, ORA Direct Testimony of Daphne Korthamer on Operating Revenues, Rate Design, and Special Requests 5, 6, 8, 9, 21, 24, and 25 of California American Water Company at 2-20 through 2-22.

[19] A.10-07-007, CAW Direct Testimony of David P. Stephenson on Monterey Rate Design, Phase II, at 23.

[20] A.13-07-002, ORA Direct Testimony of Daphne Korthamer on Operating Revenues, Rate Design, and Special Requests 5, 6, 8, 9, 21, 24, and 25 of California American Water Company at 2-21.

[21] To determine this ratio, ORA used 2014 consumption and revenue amounts provided by CAW in the Application and in the following data request responses: CAW Original Response to ORA DR EO2-002, Q2 (non-residential consumption); CAW Supplemental Response to ORA DR EO2-002, Q2 (residential consumption, aligns with consumption used by CAW in CAW Response to ORA DR EO2-002, Q005 *Rate Design.xlsx*, tab: 2016 Proposed RD and Direct Testimony of Sherrene P. Chew at 21 and 23); CAW Response to ORA DR EO2-005, Q004 *2014 Revenues by Customer Class.xlsx* (residential and nonresidential revenues).

[22] The data described in note 21 varies from the data provided in AL 1076 California American Water Company 2014 WRAM/Annual Report Monterey District. When the AL consumption estimates and reported revenues for residential and non-residential customers are used and when WRAM and MCBA balances are taken into account, it appears that residential customers were responsible for

Here, Cal Am's request to modify its rate design exacerbates the existing disparity between residential and nonresidential customers. Cal Am requests adjustment of its projected 2016 consumption level for residential customers (though not for non-residential customers),[23] using 2014 actual consumption levels.[24] ORA does not oppose this request. However, this proposal decreases residential consumption projections nearly 13 percent below authorized levels, necessitating an increase in volumetric rates.[25] Though Cal Am proposes slight modifications to non-residential rates "to maintain revenue neutrality principles based on the CPUC's prescribed standard rate design[,]"[26] residential customers would remain responsible for nearly 70 percent of the revenue requirement while consuming only 63.69 percent of projected consumption under Cal Am's proposed rate design. This increased inequity between residential and non-residential cost recovery allocations is unreasonable and should be prevented by adopting ORA's recommendations.

ORA calculates that 8.4 percent or approximately $3 million of Cal Am's current revenue requirement should be re-allocated to non-residential customers to maintain proportionality between consumption and cost recovery.

67.34 percent of the consumption and 69.22 percent of the revenues in 2014. *See* AL 1076, at R-2 and R-3, NR-2 and NR-3. *See also* A. 15-07-019 ORA Report and Recommendations on Cal Am's Request to Modify its Rate Design in Phase I at n. 24, outlining consumption estimate discrepancies between data request responses and CAW's 2014 Annual Report filed with the Division of Water and Audits.

[23] While CAW does not propose to use 2014 actual total consumption as the basis for the non-residential rate design, the actual 2014 percentages by division are used to estimate how much non-residential consumption will occur at each division rate. *See* CAW Direct Testimony of Sherrene P. Chew at 15.

[24] CAW A.15-07-019 at 6.

[25] CAW Direct Testimony of Sherrene P. Chew at 21, 23.

[26] CAW Direct Testimony of Sherrene P. Chew at 43.

Table 1-A: Allocation of Revenue Recovery amongst CAW Customer Classes[27] [28]

	2016 CAW Proposed Revenue	2016 CAW Proposed Consumption (ccf)	2016 ORA Proposed Revenue	2016 ORA Proposed Consumption (ccf)
Residential	69.52%	63.69%	63.69%	63.69%
Non-Residential	30.48%	36.31%	36.31%	36.31%

Cal Am does not allocate revenues across customer classes on the basis of costs, as Cal Am has not performed a cost analysis study or a marginal cost analysis.[29] In the absence of such a study, the proportionality measurement described above provides a reasonable alternative basis for equitably allocating revenues across customer classes.[30] Cal Am states that its allocation of costs across customer classes is based on the "CPUC Standard Rate Design, as adopted in D.86-05-064."[31] Reliance on this decision is misplaced. Not only does this decision not speak directly to the issue of the equitable allocation of revenues across customer classes, the Decision itself recognizes that it adopts a "generic," rate design.[32] Deviations from this decision, such as the use of

[27] These values pertain only to those subsystems at issue in this proceeding: Monterey Main, Bishop, Hidden Hills and Ryan Ranch. CAW-proposed revenues are derived from CAW-provided meter counts (A.13-07-002, CH 3 Revenues Workpapers, no changes have since been authorized), CAW-provided consumption (CAW Response to ORA DR EO2-002, Q005, *Rate Design.xlsx*, tab: 2016 Proposed RD), and CAW-provided proposed rates (CAW Response to ORA DR EO2-002, Q005, *Rate Design.xlsx*, tab: 2016 Proposed RD).

[28] ORA used the projected 2016 amount recoverable through residential and non-residential fixed and variable charges provided by Cal Am in CAW Response to ORA Data Request EO2-002, Q005 *Rate Design.xlsx*, tab: 2016 Proposed RD. However, this amount varies from the total amount recovered from Cal Am's rate design, provided in the same data response on tab: Cost of Svc ($52,968,438.35). It is unclear why Cal Am's rate design does not collect its own stated projected 2016 revenue requirement.

[29] CAW Response to ORA DR EO2-005, Q001.

[30] *See, e.g.,* PA Consulting Group, Los Angeles Department of Water and Power 2014 Water Service Cost of Service Study at Fig. 21 and Fig. 28, analysis of which shows that in that service territory, the distribution of costs under a marginal cost study equals the distribution of costs on a percent revenue to percent consumption basis to within 2 percentage points for each customer class.

[31] CAW Response to ORA DR EO2-002, Q016; *see also* Testimony of Sherrene Chew at Phase I hearing, Jan. 13, 2016, Transcript, at 122, ln. 21-28.

[32] D.86-05-064, Order Instituting Investigation (Rulemaking) into Water Rate Design Policy, at 13.

greater than three commodity blocks, are common. Cal Am itself deviates from D.86-05-064, and subsequent permutations in a number of ways to encourage conservation and to increase equity, including proposed modifications to standard meter ratios[33] and requests a sales reconciliation mechanism, (expressly not adopted in D.86-05-064).[34] Finally, CPUC Standard Practice U-7-W, regarding Rate Design for Water and Sewer System Facilities, notes that conservation rates, such as those utilized by Cal Am, are themselves deviations from the Commission's standard rate design.[35] Thus, as Cal Am has already incorporated deviations from the Commission's standard rate design into its own conservation rate design, and requests further deviations, dogmatic adherence to its own interpretations of portions of D.86-05-064, despite inequitable results, is inapposite.

The Commission should adopt ORA's proposal to shift approximately $3 million in cost recovery from residential rates to nonresidential rates, as reliance on the Commission's generic rate policy is not applicable, not generally practiced by Cal Am, and, most importantly, results in inequitable apportionment of costs not reasonably related to consumption. ORA achieves this shift in its rate design by apportioning Cal Am's stated fixed costs to each class based on proportion of total consumption, and then similarly apportioning variable costs based on the proportion of total consumption. These costs are then distributed between fixed and variable charges within each customer class based on the proposed 30 percent collection of fixed costs in meter charges for residential customers (*see* section (III)(B)(3)(b), below), currently also used for non-residential customers.

[33] CAW Direct Testimony of Sherrene P. Chew at 19.

[34] Further, while D.86-05-064 states that meter charges "shall be set to allow utilities to recover *up to* 50% of their fixed cost[s]" (at 16), CPUC Standard Practice U-7-W states that for Class A water utilities, "the percentage *is* 50%." [emphasis added] at 6, highlighting another instance in which Cal Am deviates from the Commission's standard practice.

[35] CPUC U-7-W at 7, noting: "[conservation] rate designs are much more volatile than the Commission's standard rate design."

2. Cal Am's Current Rate Design is Susceptible to Abuse

The Commission should authorize Cal Am to implement a standard inclining block rate design because Cal Am's current allotment-based rate design is susceptible to abuse. Cal Am states: "[d]ata shows that the number of residents per household has likely been significantly over reported, thus increasing the allotment at each tier and improperly reducing the water bill for those over-reported households."[36]

According to the available allotment data provided by Cal Am[37] and analyzed by ORA, Cal Am has relied upon inaccurate customer survey responses to provide questionable allotments for more than 5 years. Despite the ready availability of this data, it appears that Cal Am has exercised limited diligence in auditing or questioning the accuracy of the customer survey responses.[38] Cal Am's failure to adequately ensure the accuracy or even basic reasonableness of the allotments it dispensed has led to years in which Cal Am has benefitted from the goodwill secured by this practice. Goodwill benefitting Cal Am could be achieved through its overly generous provision of allotments that effectively reduced individual customer bills, as well as, reduced the reported revenues that the company used to calculate WRAM balances. However, goodwill is not a ratemaking component that is afforded recovery in rates and manipulation of the WRAM to generate corporate goodwill with the cost of such goodwill furtively socialized amongst all ratepayers via WRAM surcharges is abusive and should be stopped.

As further detailed in Chapter 2 and Attachment 1-A of this report, ORA estimates that $17.39 million of the WRAM balance may be reasonably attributable to Cal Am's

[36] CAW Direct Testimony of Eric J. Sabolsice at 17 and 23.

[37] CAW Second Supplemental Responses to ORA DR EO2-002, Q003s –*Single Family Spreadsheet 2014*, *Multi-Family Spreadsheet 2014*, *Single Family Spreadsheet 2013* and *Multi-Family Spreadsheet 2013*.

[38] CAW Direct Testimony of Eric J. Sabolsice at 18.

profligacy in providing allotments—which a reasonable utility manager would not have allowed—and therefore should be removed from the WRAM balance available for recovery.[39]

Evidence of Abuse and Inadequate Management Oversight

Comparisons of Monterey census population data with data from Cal Am's allotment records indicate that Monterey customers have been overstating the number of residents in their households. Allotments are established according to customer responses to a survey, and can be changed by customer request. Though Cal Am has had allotments in place in Monterey since at least 2000,[40] due to a change in Cal Am's records-keeping system that erased previous allotment data, Cal Am is unable to produce pre-2013 allotment data. The 2014 allotment data submitted by Cal Am in response to ORA's data requests indicate that 115,148 full-time occupants resided in premises serviced by Cal Am in 2014, solely within the subsystems at issue in the present application (Monterey Main, Bishop, Hidden Hills, and Ryan Ranch).[41] This number does not include part-time residents or full- and part-time residents of the Ambler Park, Chualar, Ralph Lane, or Toro subsystems. However, this reported number exceeds the most recent census data for the entire Monterey District (99,396 full-time residents), and

[39] Beginning with the 2010 census population amount and 2015 census population estimate provided in CAW's 2010 Urban Water Management Plan, ORA calculated the rate of change in Monterey District population over the past five years. ORA used this rate and the number of full-time residents estimated by CAW in CAW Second Supplemental Response to ORA DR. EO2-002, Q003s *Single Family Spreadsheet 2014* and *Multi Family Spreadsheet 2014* to determine an estimate of the number of "excess residents," or number of residents overstated in allotment surveys for 2010-2014. These numbers were then multiplied by the corresponding actual average consumption per capita, to determine the amount of consumption for which CAW improperly offered lower-tiered rates. This consumption was then multiplied by the annual average revenue-dollar-per-unit-of-actual consumption. The total of this amount for each year is ORA's suggested WRAM reduction. This number does not take into consideration falsely-reported lot size adjustments, which are more difficult to estimate, and so this estimate may be understated. *See* note 46, below.

[40] CAW Direct Testimony of Eric J. Sabolsice at 13.

[41] CAW Second Supplemental Responses to ORA DR EO2-002, Q003s –*Single Family Spreadsheet 2014, Multi-Family Spreadsheet 2014*.

is greater than 2015 projections stemming from the most recent data (101,725 full-time residents) by nearly 12 percent.[42] Finally, this data is an even lower projection of the overstatements noted by Cal Am in its own testimony (125, 624 reported population) or in information provided by Cal Am to other parties.[43]

An obvious example of the lack of adequate management oversight in providing customer allotments can be found in the 2014 data provided by Cal Am which lists a single family residence provided with allotments for 999 full-time occupants, another with 900 full-time occupants, and four other single family residential customers provided with allotments for over 50 full-time occupants.[44] After questions from ORA, Cal Am stated that these allotments were incorrect and had been corrected in 2015, listing all such residences as having five or fewer full-time occupants.[45] Because Cal Am is unable to produce any records of allotment data prior to 2013, it is unclear to what extent the above customers or others received similarly inflated allotments which decreased rates and contributed to the WRAM balances that Cal Am seeks to recover in this proceeding.

Similarly, data provided by Cal Am for outdoor landscaping adjustments indicates that lot sizes have also been reported incorrectly and allotments provided without adequate oversight. For example, in 2014 allotment data, more than 7,000 residential accounts or more than 20% of all single family residential customers had multiple lot

[42] 2010 Urban Water Management Plan for the Central Division – Monterey County District, prepared for California - American Water Company under the management of Jeffery M. Syztel, Sept. 7, 2012, at 2-6.

[43] CAW Direct Testimony of Eric J. Sabolsice at 17; MPWMD Response to ORA Data Request EO2-001, ORA Population Info.pdf (email from Joe DiMaggio to Stephanie Locke, July 18, 2014) cites the total (full-time and part-time equivalent) Allotment Population of the subsystems at issue to be at least 178,103 in July, 2014.

[44] CAW Second Supplemental Responses to ORA DR EO2-002, Q003s –*Single Family Spreadsheet 2014*.

[45] Email from Sherrene P. Chew to ORA, Jan. 7, 2016.

adjustment codes associated with their individual rate design over time.[46] Whether the most-recent report misstates a lot size or represents a correction to a previously incorrect lot size, each change most likely indicates that at some point, a lot size was incorrectly reported and an allotment inappropriately provided since it is unlikely that 20% of all residential customers experienced an actual, physical change in the lot size.

Inflation of allotments decreases bills for some customers at the expense of others. The decrease in customer bills results in lower reported revenues (though no decreases in consumption) and thus inappropriately increases WRAM balances. As estimated in Attachment 1-A, the portion of the WRAM balance attributable to mismanagement of the allotment system should not be allowed for recovery.

3. Cal Am's Proposed Rate Design and ORA Recommendations

Given the complexity of Cal Am's current rate design and the number of requests for modifications, it is difficult to succinctly summarize the effects of Cal Am's proposals on customer bills. Customers with varying consumption levels, household sizes, and meter sizes would experience different impacts from Cal Am's proposals. However, five of Cal Am's requests are the primary drivers for the changes in residential rates proposed in this proceeding: (a) the request to standardize block widths for all customers by eliminating the allotment system; (b) the request to increase the recovery of fixed costs in meter charges from 15 percent of fixed costs to 30 percent; (c) the request to deviate from the CPUC's standard rate design's meter charge ratios for residential meter rates; (d) the

[46] In ORA's Report and Recommendations on Cal Am's Request to Modify its Rate Design in Phase I of this proceeding, in note 17, ORA stated that "14,123 [single family] premises entries had variable lot adjustment entries." These premises entries may have varied based on either effective date (multiple effective dates indicate that a customer updated the lot size adjustment information, either by changing the response regarding the lot size or by confirming the previous lot size adjustment) and/or lot size code. For the purposes of this report, only those premise entries with *variable* lot size codes, 7,103, are relevant.

request to use 2014 actual consumption and consumption by tier as the basis for the proposed rate design; and (e) the request to compress the residential tiered rate differentials. This section summarizes the isolated effects on residential rates and bills resulting from these proposed changes and ORA's modifications to these requests.

a. ORA does not oppose Cal Am's request to eliminate the Allotment System.

Cal Am proposes to eliminate its allotment system, standardizing the block widths for its residential customers. Rather than basing customer block widths on customer survey responses, Cal Am has set block widths for residential customers based on an assumed average of 2.5 people per household in single-family residences and an average of 1.5 people per household in multi-family residences. Cal Am assumes an average use of 80 gallons per person per day ("gpcd"),[47] and apportions this typical use between Tiers 1 and 2.[48]

Under the current rate design, block widths fluctuate with the number of full-time residents (*see* Table 1-B below, where the current block width allotment in each tier is multiplied by the number of persons reported to live in the household). Thus, customers with larger reported household sizes would have block widths commensurate with their survey responses. Here, because the tier widths, particularly Tiers 1 and 2, are standardized at the assumption of 2.5 persons per household for single family residential customers (and 1.5 persons per household for multi-family customers), those customers who formerly had allotments for more than two people will experience a shrinking of

[47] The Environmental Protection Agency notes that typical American households use 70 gallons per person per day ("gpcd") as its standard for indoor use. *See* United States Environmental Protection Agency website, http://www3.epa.gov/watersense/pubs/indoor.html, last visited Jan. 19, 2016. Recently, consumption in Monterey has been much less, going from an average of 59.09 gpcd in June of 2014 to 50.55 gpcd in November of 2015, with a high of 70 gpcd in September, 2015. Data obtained from the State Water Resources Control Board CRINC Portal, Cal Am Monterey, https://drinc.ca.gov/dnn/ Applications/UrbanWaterR-GPCD.aspx, last visited Jan. 28, 2016.

[48] CAW Response to ORA DR EO2-002, Q018.

Tiers 1 and 2, potentially increasing the amount of water purchased at upper tiers. The single family Tier 3 block width is larger than Tiers 1 and 2, accommodating larger families.

Conversely, those customers who currently have block width allotments based on survey responses reporting two or fewer residents in a household will see their Tier 1 and 2 widths increase and so may see their bills decrease at higher consumption levels, as shown in Table 1-B, below..

Table 1-B: Current Block Widths Compared with Proposed Block Widths

Tier	Current Household Size Block Width Allotment in 10s of Cf, multiply by household size[49]	CAW Proposed Single Family Block Widths in 10s of Cf	CAW Proposed Multi-Family Block Widths in 10s of Cf
Tier 1	15	40	25
Tier 2	15	40	25
Tier 3	15	60	17.5
Tier 4	15	90	25
Tier 5	15	All consumption >230	All consumption >92.5

ORA does not oppose Cal Am's request to standardize its block rate design. Cal Am's proposal standardizes the amount customers pay for each unit of water at any given tier. It eliminates the inequities caused by the manipulation of the allotment system, discussed above, and simplifies customer bills. While Cal Am's proposal will affect different household sizes differently, the change ensures that residential customers (in each dwelling-unit type and regardless of lot size ownership) pay the same amount for the same amount of consumption.

[49] Note that this table does not consider current outdoor watering allotments or other allotments when tallying current block widths. These allotments, if any, would increase the current block widths.

b. ORA does not oppose Cal Am's request to increase fixed cost recovery in residential meter charges to 30 percent.

Currently, roughly 89 percent of Cal Am's costs are reported to be fixed costs.[50] Under Cal Am's current residential rate design, only 15 percent of these costs are recovered through service charges. Placing such a large percentage of fixed cost recovery in volumetric charges can result in unreliable collection of these fixed costs. Cal Am proposes to increase the percentage of total residential fixed costs recovered in residential meter charges from 15 percent to 30 percent. Cal Am proposes this change to increase the stability of residential revenue recovery, regardless of the accuracy of adopted consumption forecasts.[51] In isolation, this change would increase meter charges and reduce volumetric charges, making total bills less sensitive to changes in customer consumption and thus generally dampening conservation pricing signals.

ORA does not oppose Cal Am's request to increase fixed cost recovery to 30 percent in residential meter charges. ORA agrees that this is a substantial step Cal Am can take to improve revenue stability. ORA maintains the conservation impetus of Cal Am's rate design through its recommendation to maintain the current, steeply-tiered rate differentials, discussed later in this chapter.

c. The Commission should adopt standard meter charge ratios for Cal Am's residential customers.

Cal Am proposes effectuating its request to collect 30 percent of fixed costs through meter charges by using residential meter charge ratios which differ from those cited in CPUC Standard Practice U-7-W. The standard meter charge ratios in SP U-7-W correlate meter size to maximum meter flow.[52]

---

[50] CAW Response to ORA DR EO2-002, Q005 *Rate Design.xlsx*, tab: Cost of Svc.

[51] *See* CAW Direct Testimony of Sherrene P. Chew at 13, 26.

[52] CPUC Standard Practice U-7-W at 7.

Instead, Cal Am uses an alternative method to determine its base residential monthly meter rate for residential customers, decreasing the service charge paid by residential customers with smaller meters and increasing the amount that would be paid by residential customers with larger meters. This results in lower average monthly bills for 5/8" residential metered customers than would result from the use of the standard meter ratios. It is unclear what methodology Cal Am used to determine its monthly meter equivalent charge for residential customers, though that chosen by Cal Am is less than that used by Cal Am for its non-residential customers, which was derived using the Commission's standard meter charge methodology.[53]

Cal Am applied meter charge ratios to its chosen "monthly meter equivalent" which decrease the amount that would be paid by residential customers with 5/8" meters and increase the amounts paid by residential customer with larger meter sizes. This request to use non-standard meter charge ratios decreases the overall percentage change in a bill for residential customers with 5/8" meters.[54]

ORA recommends that the Commission adopt standard meter charge ratios as prescribed under SP U-7-W. While increasing the impact of the shift in recovery of fixed costs through meter charges and overall increase in rates due to the consumption projection adjustment that will be felt by those with smaller meter sizes, ORA's recommendation maintains the connection between monthly meter charge and maximum meter flow.[55] The standard meter charge ratios ensure equitable distribution of the fixed cost recovery across meter sizes, in proportion to their ability to receive different water

[53] CAW Response to ORA DR EO2-002, Q005, *Rate Design.xlsx*, tab: Cost of Svc.
[54] Direct Testimony of Sherrene P. Chew at 32, 37, and 41.
[55] CPUC Standard Practice U-7-W at 7.

flow rates. See Attachment 1-B for tables showing ORA and Cal Am's proposed meter charge ratios and rates.

Table 1-C: ORA and CAW Proposed Residential Meter Charges

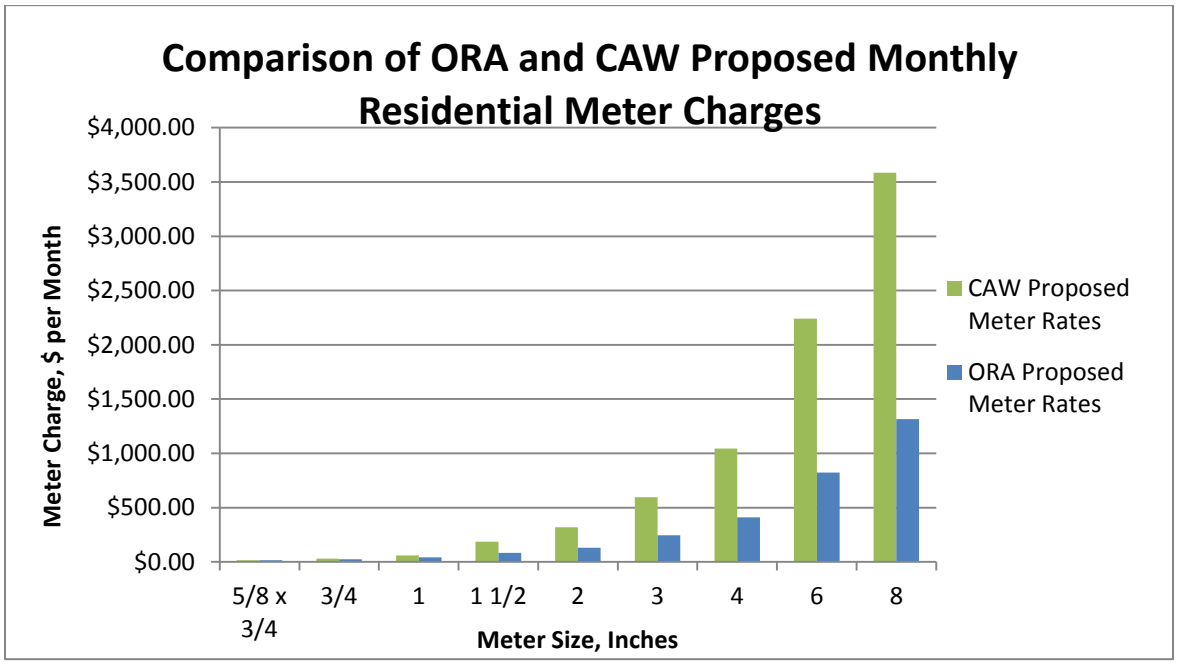
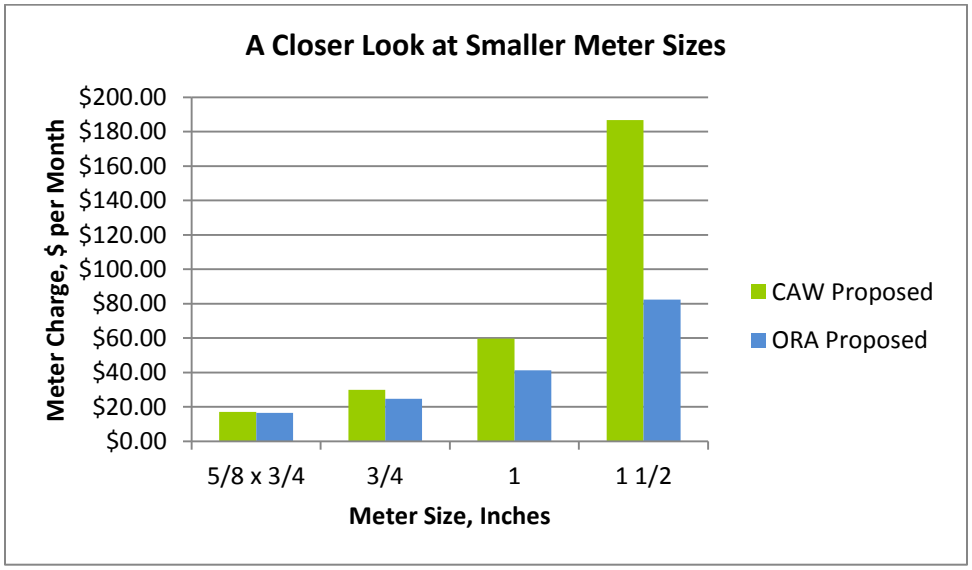


Table 1-D: Close-Up of ORA and CAW Proposed Residential Meter Charges for Smaller Meter Sizes



d. ORA does not oppose Cal Am's request to use 2014 actual consumption as the basis for its proposed rate design.

Cal Am proposes to use 2014 actual residential and consumption by tier consumption (shown in Table 1-E, below, as "Proposed 2016" consumption) as the basis for the proposed 2016 rate design, rather than the authorized consumption and consumption by tier established in the last general rate case. Cal Am proposes this change to reflect continuing declines in usage in the Monterey District, positing that "it is reasonable to use the latest production numbers at all times in Monterey as the usage declines are unpredictable."[56]

Table 1-E: Authorized and CAW Proposed Residential Consumption and Consumption-by-Tier (10s of Cf)

	2016 Authorized	Percent by Tier	CAW Proposed 2016 Single Family	Percent by Tier	CAW Proposed 2016 Multi-Family	Percent by Tier
Tier 1	18,162,035	58.00%	12,056,725	56.88%	3,379,682	55.75%
Tier 2	7,345,576	23.46%	5,108,628	24.10%	1,750,449	28.87%
Tier 3	2,930,878	9.36%	2,343,724	11.06%	472,893	7.80%
Tier 4	1,137,642	3.63%	931,618	4.40%	280,855	4.63%
Tier 5	1,739,036	5.55%	756,024	3.57%	178,701	2.95%
Sub	-n/a-		21,196,747		6,062,580	
Total	31,315,167		27,259,327			

In isolation, this change would increase residential volumetric base rates,[57] to recover the authorized revenue requirement under expectations of decreased consumption. This recommendation is the largest factor resulting in bill increases for most of Cal Am's residential customers. The increase in volumetric rates "more than offsets" the decrease in those volumetric rates that would have otherwise resulted from

[56] CAW Direct Testimony of Sherrene P. Chew at 20.

[57] "Base rate" is here defined as the low block or division quantity rate from each billing customer classification and is determined as the rate necessary to equal the billing classification revenue requirement given the defined rate design parameters.

the shift in fixed cost recovery to meter charges, described above.[58] Thus, Cal Am's proposal includes an increase in residential meter charges, as well as an increase in base residential volumetric charges.

ORA does not oppose Cal Am's request to use 2014 actual consumption as the basis for its proposed rate design. Here, in the context of a full application, the Commission has the ability to analyze the rationale for and potential effects of Cal Am's request to modify its adopted consumption estimate. Given the likely continuation of mandated conservation throughout most of 2016, ORA supports the use of the decreased consumption estimate.[59] Again, the adoption of the decreased consumption estimate is the primary driver of the bill increases proposed by ORA; however, the consumption estimate aligns price with cost in a timely manner and potentially forestalls future large under-collections.

e. ORA recommends no changes to currently-authorized residential tiered rate differentials.

Cal Am proposes to compress its tiered rate differentials, or the spread between the amount paid for Tier 1 consumption and the rate paid for Tier 5 consumption. Cal

[58] CAW Direct Testimony of Sherrene P. Chew at 21-22.

[59] Consumption amounts for Monterey Main, Bishop, Hidden Hills, and Ryan Ranch. *See* D.15-04-007, Att. 1, Authorized Settlement, §3.2.10; *see also* CAW Direct Testimony of Sherrene P. Chew at 21, 23.

	2014 Actual Consumption (CCF)	2016Authorized Consumption (CCF)	2016 CAW Proposed
Residential	2,725,933	3,131,517	2,725,933
Nonresidential	1,428,420	1,553,751	1,553,751
Total	4,154,353	4,685,268	4,279,684

Am proposes this compression "so that there is less pressure on the recovery of revenue difference in the upper tiers when consumption varies."[60] This decreases the total anticipated volumetric revenue amount's sensitivity to fluctuations in consumption, decreasing the risk of annual revenue recovery shortfalls. In isolation this change would increase the amount paid for lower-tiered consumption while decreasing the amount paid for higher-tiered consumption. This decreases the price incentive to conserve.

ORA recommends no changes to currently-authorized residential tiered rate differentials. Cal Am's proposal serves to dampen the pricing signals sent to those who have the highest consumption, and increases rates at a proportionately greater rate for those who consume the least. Cal Am continues to face a number of limitations on its water supply. ORA recommends no changes to the current tiered rate differentials, directly ensuring that those who use the least water are less impacted by the changes in the rate design. Other revenue-stabilizing effects will ensue from the increase in recovery of fixed costs in meter charges.

Neither party recommends modifications to the non-residential division rate differentials at this time. See Attachment 1-B for comparisons of ORA's and Cal Am's proposed volumetric rates.

f. Cal Am's Request to Modify it Low Income Ratepayer Assistance Program ("LIRA")

Cal Am proposes to modify its low income assistance program in order to mitigate the effects of the rate design changes on low income families.[61] Cal Am proposes that that the current 20 percent discount on monthly meter charges and Tiers 1 and 2

[60] CAW Direct Testimony of Sherrene P. Chew at 20.
[61] *Id.* at 29.

consumption will increase to a 30 percent discount on monthly meter charges and consumption at Tiers 1-4.

ORA does not oppose adoption of Cal Am's proposed modifications to LIRA.

All low income customers will experience a monthly meter charge increase and volumetric rate increases and some low income customers, those with larger than average household sizes, will feel these increases exacerbated by the removal of the allotment system. Proposed LIRA modifications increase the discount on the monthly service charge and Tiers 1 and 2, which are intended for basic use for a family of 2.5 people. The increase of the coverage of the discount to Tiers 3 and 4 reduce the impact on those low income customers with larger than average household sizes. As ORA maintains these aspects of Cal Am's proposed rate design, ORA does not oppose Cal Am's request for these modifications to LIRA.

ORA inquired as to estimates of any additional burden on non-LIRA customers in Monterey as a result of the proposed modifications to LIRA. Cal Am estimates that as a result of the proposed modification, non-LIRA customers may see a total annual increase in LIRA surcharges of roughly $219,000,[62] or about $0.59 per monthly bill. Cal Am does not here request an increase in the LIRA surcharge. This issue should be addressed in Cal Am's upcoming general rate case.

In sum, Cal Am's proposal decreases Cal Am's risk of annual residential recovery shortfalls, and results in increased residential meter charges, particularly for those customers with larger meters. The proposal results in increased residential base volumetric charges, and tiered rate differentials that shift the burden of revenue recovery from those residential customers exhibiting higher consumption to those with lower

[62] CAW Response to ORA DR EO2-008, Q002, *Low Income Estimate.xlsx*.

consumption patterns.[63] ORA's proposal incorporates a shift in cost allocation from residential to nonresidential rates, slightly mitigating the effects of decreased consumption estimates, and seeks to balance the risk of under-recovery with the need to maintain adequate conservation pricing signals.

C. Comparison of Cal Am and ORA's Proposed Rate Designs' Effects on Customer Base and Total Bills

As described in ORA's Report and Recommendations on Cal Am's Request to Modify its Rate Design in Phase I of this proceeding, Cal Am's current rate design depends on customer survey responses to determine block width allotments, and so is highly customer-specific. Thus, effects of proposed changes on customer bills can vary widely. ORA has included tables which summarize the effects proposed changes will have on base bills (meter charges and volumetric charges) and total bills (meter charges, volumetric charges, and all surcharges, taxes and fees) under varying levels of consumption.[64] For residential bills, ORA used one, two, three, and four-person household allotment profiles (accounting for 80 percent of all single family residential customers in 2014)[65] with no outdoor landscaping allotment, no large animals, and a 5/8" meter as its baseline "representative customer profile" against which to compare proposed bills under CAW and ORA's proposed rate designs.[66] The consumption

[63] Under Cal Am's proposed rate design, multi-family residential customers have smaller tier widths than single family customers. The decreased tier widths reflect Cal Am's assertion that there are, on average, fewer persons per household in multi-residential units than in single family units and so Tiers 1 and 2 should allow for less water usage at lower rates. *See* CAW Response to ORA DR EO2-002, Q18 (a). Cal Am proposes decreased multi-residential base rates to insure that the decreased tier widths do not result in disproportionate percent-increases in multi-residential bills. CAW Direct Testimony of Sherrene P. Chew at 23.

[64] *See* Attachments 1-C and 1-D of this report.

[65] CAW Second Supplemental Response to ORA DR EO2-002, Q003s – *Single Family Spreadsheet 2014.*

[66] According to Cal Am, "[t]his profile is the most representative of [Cal Am] single family customer base and has been used in other proceedings to reflect the average residential single family customer." CAW Direct Testimony of Sherrene P. Chew at 31, note 14.

estimates chosen represent usage at each quarter percentile, 90th percentile, and average consumption from May 2014,[67] except where indicated. For non-residential customers, ORA again uses a customer profile with a 5/8" meter.[68] Tables are found in Attachments 1-C and 1-D to this report.

IV. CONCLUSION

ORA recommends the Commission adopt ORA's proposed rate designs for Cal Am's residential and non-residential customers in Monterey. ORA's proposed rate designs realign cost recovery with consumption. ORA recommends elimination of the residential allotment rate design and a WRAM balance reduction which reflects inadequate managerial oversight of the allotment system. ORA's rate design standardizes the rates paid by residential customers in similar living units, and further specific rate design recommendations balance stabilized cost recovery with the continued need to conserve in Monterey.

[67] CAW Responses to ORA DR EO2-001, Q001, *Single Family Res Bills Under Proposed Rate Design Attachment 5.xlsx, MultiFamily Bills Under Proposed Rate Design Attachment 7.xlsx, Low Inc Bills Under Proposed Rate Design Attachment 9.xlsx, Non-Res Bills Under Proposed Rate Design Attachment 11.xlsx.*

[68] 5/8" is the most prevalent meter size for Cal Am's non-residential customers. CAW Response to ORA DR EO2-002, Q005, *Rate Design.xlsx*, tab: 2016 Proposed RD.

ATTACHMENT 1-A
ORA's Proposed Reduction of Cal Am's WRAM Balance

I. INTRODUCTION

This Attachment explains the Office of Ratepayer Advocates' ("ORA") methodology in calculating the amount of California American Water Company's ("CAW" or "Cal Am") current residential Water Revenue Adjustment Mechanism ("WRAM") balance for the Monterey Main service area that is attributable to the inadequate management oversight of Cal Am's residential allotment rate design.

As described in ORA's Report on Rate Design Issues, Cal Am's allotment system has been abused. Evidence indicates that Cal Am has approved and provided grossly inflated water allotments for numerous residential customers.[69] This allows Cal Am to charge these customers rates discounted below the rates at which they would otherwise be charged per authorized tariffs. Thus, residential volumetric revenues reported by Cal Am are lower and WRAM balances higher than they would be if the allotment system had been reasonably managed. Therefore, the portion of the WRAM balance attributable to unreasonable management practices should not be authorized for recovery.

Based upon allotment data Cal Am provided to ORA that is easily identifiable as incorrect,[70] Cal Am should have been aware of the problems with the allotment process and taken corrective action before the inflation of the WRAM balance occurred.

[69] Cal Am has approved allotments for up to 999 persons reported to be living in a single family residence. *See* CAW Second Supplemental Responses to ORA Data Request EO2-002, Q003s – *Single Family Spreadsheet 2014.*

[70] At least eleven of Cal Am's single family residential customers have changed their lot size survey response three times since 2013. *See* CAW Second Supplemental Responses to ORA Data Request EO2-002, Q003s – *Single Family Spreadsheet 2014.*

II. METHODOLOGY

Because Cal Am does not perform customer survey response audits[71] nor does it retain historical allotment data, several assumptions are necessary to determine the portion of the current WRAM balance that is the result of inadequate management oversight of the allotment system.

ORA began with census data provided by Cal Am in its 2010 Urban Water Management Plan.[72] This document provides 2010 census data for the Monterey District, as well as a projection for 2015.[73] ORA calculated the annual change in residents for the subsystems at issue between 2010 and 2015 and used this rate to estimate the population for the years 2011, 2012, and 2013 ("Census Population"). This formed a baseline of what could reasonably be assumed to be the actual population of residents of the Monterey County District for each year from 2010-2015, (Table 1A, Column B).

Next, ORA requested residential allotment data from Cal Am for the period 2010-2015.[74] Because Cal Am changed its customer billing software in 2013, however, Cal Am is unable to provide data on pre-2013 annual allotments.[75] From the data that Cal Am was able to provide,[76] ORA calculated the total number of full-time Monterey

[71] CAW Direct Testimony of Eric J. Sabolsice at 18.

[72] 2010 Urban Water Management Plan for the Central Division – Monterey County District, prepared by Jeffery M. Szytel, Sept. 7, 2012, at 2-6, Table 2-3: Past Current, and Projected Population of the Monterey County District, (hereinafter "2010 Urban Water Management Plan").

[73] 2010 Urban Water Management Plan at 2-6.

[74] *See* ORA Data Request CAW EO2-002, Q003 and Q004; see also ORA Data Request CAW EO2-006, Q001.

[75] Email from Sherrene Chew to ORA, Dec. 9, 2015.

[76] It should be noted that ORA received allotment data from the Monterey Peninsula Water Management District ("MPWMD") which indicates even more allotments were provided than the data provided by Cal Am shows. For example MPWMD Response to ORA DR EO2-001, ORA Population Info.pdf

residents based upon the allotments that had been provided by Cal Am in 2014 ("Allotment Population," Table 1A, Column C). ORA used the rate of change in Census Population to determine the rate of change in Allotment Population in order to develop allotment estimates for 2010, 2011, 2012, and 2013. The annual difference between the Allotment Population and the Census Population is what ORA refers to as the Overstated Population (Table 1A, Column D).

ORA then divided Cal Am's reported residential consumption for each year (Table 1A, Column E) by that year's Census Population to determine the consumption-per-capita (Table 1A, Column F). ORA multiplied the consumption-per-capita by the Overstated Population to estimate how much water could have been improperly discounted each year (Table 1A, Column G).

ORA divided Cal Am's reported volumetric revenues[77] (Table 1A, Column H) by the reported consumption for each year to determine the average revenue per unit of consumption (Table 1A, Column I). ORA then multiplied this dollar amount by each unit of improperly discounted consumption to determine the amount by which Cal Am's annual WRAM balances should be reduced (Table 1A, Column J).

(email from Joe DiMaggio to Stephanie Locke, July 18, 2014) cites the total (full-time and part-time equivalent) Allotment Population of the subsystems at issue to be at least 178,103 in July, 2014 – nearly 55 percent greater than the Allotment Population used in ORA's calculation which relies on data provided by Cal Am. Thus, ORA's calculation presents a conservative estimate of the effects of inadequate managerial oversight of the allotment system on the WRAM balance. Finally, data contained within MPWMD's response to ORA DR EO2-001 was originally provided to MPWMD by Cal Am. It remains unclear why the allotment data provided to MPWMD by Cal Am does not match the data provided to ORA by Cal Am.

[77] CAW Response to ORA DR EO2-002, Q002.

Attachment Table 1A-1: ORA's Recommended WRAM Balance Reduction Calculations

	Population			Consumption			Revenue		Reduction
A	B	C	D	E	F	G	H	I	J
Year	Census Population	Estimated Allotment Population	Total Overstated Population	Residential Use (CGL)[78]	Use per Capita (CGL)	Improperly Discounted Use (CGl)	Volume Revenue[79]	Average Revenue Dollar per Unit of Use	WRAM Reduction
2010	95,972[80]	112,728	16,756	22,379,200	233.18	3,907,242	$20,190,531	$0.902201	$3,525,117
2011	96,487	113,333	16,846	22,647,620	234.72	3,954,127	$17,158,246	$0.757618	$2,995,718
2012	97,002	113,938	16,936	23,219,070	239.37	4,053,918	$21,061,252	$0.907067	$3,677,175
2013	97,517	114,543	17,026	22,820,670	234.02	3,984,379	$19,050,031	$0.834771	$3,326,044
2014	98,032	115,148[81]	17,116	20,389,980	207.99	3,560,010	$22,178,830	$1.087732	$3,872,336
2015	98,546[82]								**$17,396,390**

[78] CAW Response to ORA DR EO2-002. Note that these reported consumption estimates vary from those provided in Cal Am's annual advice letter filings. For example, in AL 1076, 2014 WRAM/MCBA Annual Report, Att. 1 the reported residential use was 22,649,052.54 CGl); AL 1041, 2013 WRAM/MCBA Annual Report Att. 1-3 does not separate the Bishop, Hidden Hills, or Ryan Ranch consumption into residential or non-residential consumption until November, though without separating non-residential for these smaller subsystems, the reported consumption was 24,173,297.02 CGl. No prior Annual WRAM Report AL separates the consumption for the smaller subsystems into residential and non-residential consumption, and so are inappropriate for use here. ORA instead uses CAW's response to ORA's request for annual consumption totals broken down by customer class.

[79] Recorded quantity revenues as reported in WRAM/MBC Annual Reports, AL 1076, AL 1057, AL 1009, AL 938, AL 903. Because the advice letter totals combine pre-November 2013 residential and non-residential revenues for Bishop, Hidden Hills and Ryan Ranch, as noted in note 10, these totals are slightly inflated by the revenues derived from roughly 210 non-residential customers.

[80] 2010 Urban Water Management Plan, at 2-6, Table 2-3, sum of 2010 amounts for Monterey Main, Bishop, Hidden Hills and Ryan Ranch.

[81] CAW Second Supplemental Responses to ORA Data Request EO2-002, Q003s – *Single Family Spreadsheet 2014*, *Multi-Family Spreadsheet 2014*.

[82] 2010 Urban Water Management Plan, at 2-6, Table 2-3, sum of 2015 amounts for Monterey Main, Bishop, Hidden Hills and Ryan Ranch.

ATTACHMENT 1-B
Comparison of ORA's and Cal Am's Proposed Residential Meter Charges and Tiered Volumetric Charges

Attachment Table 1B-1: ORA's Standard Rate Design Residential Meter Ratio Methodology

Meter Size	Customers at each Meter Size	CPUC Standard Meter Ratios	Total Meter Equivalents
5/8 x ¾"	29,269	1.0	29,269
¾"	262	1.5	393
1"	4265	2.5	10,663
1 ½"	485	5.0	2,425
2	209	8.0	1,672
3	3	15.0	45
4	3	25.0	75
6	6	50.0	300
8	6	80.0	480
Total	34,508		45,322
30 Percent of Fixed Charges to be Recovered in Res Meter Rates			$8,952,693.42
Annual Cost per Meter Equivalent			$197.54
Monthly Meter Equivalent			$16.46

Attachment Table 1B-2: ORA Residential Meter Rates

Meter Size	Meter Ratio	Meter Rate
5/8 x ¾"	1.0	$16.46
¾"	1.5	$24.69
1"	2.5	$41.15
1 ½"	5.0	$82.31
2	8.0	$131.69
3	15.0	$246.92
4	25.0	$411.54
6	50.0	$823.07
8	80.0	$1,316.92

Attachment Table 1B-3: CAW Residential Meter Rates

Meter Size	Meter Ratio	Meter Rate[83]
5/8 x ¾"	1.0	$17.03
¾"	1.75	$29.81
1"	3.50	$59.58
1 ½"	10.97	$186.77
2	18.72	$318.76
3	35.10	$597.68
4	61.43	$1,045.94
6	131.64	$2,241.30
8	210.62	$3,586.07

[83] CAW Response to ORA DR EO2-002, Q005, *Rate Design.xlsx*, tab: 2016 Proposed RD.

Attachment Table 1B-4: ORA Non-Residential Meter Rates

Meter Size	Meter Ratio	Meter Rate
5/8 x ¾"	1.0	$31.05
¾"	1.5	$46.57
1"	2.5	$77.62
1 ½"	5.0	$155.23
2	8.0	$248.37
3	15.0	$465.70
4	25.0	$776.16
6	50.0	$1,552.33
8	80.0	$2,483.72

Attachment Table 1B-5: CAW Non-Residential Meter Rates

Meter Size	Meter Ratio	Meter Rate[84]
5/8 x ¾"	1.0	$19.90
¾"	1.5	$29.85
1"	2.5	$49.74
1 ½"	5.0	$99.48
2	8.0	$159.18
3	15.0	$298.45
4	25.0	$497.42
6	50.0	$994.85
8	80.0	$1,591.76

Attachment Table 1B-6: Current and Proposed Residential Tiered Rate Differentials

	Current Residential Rate Differential	CAW Proposed Residential Rate Differential	ORA Proposed Residential Rate Differential
Tier 1	100%	100%	100%
Tier 2	150%	150%	150%
Tier 3	400%	350%	350%
Tier 4	800%	650%	700%
Tier 5	1000%	800%	900%

[84] CAW Response to ORA DR EO2-002, Q005, *Rate Design.xlsx*, tab: 2016 Proposed RD.

Attachment Table 1B-7: Current and Proposed Single Family Rates (per 10s of Cf)

	Current Rate[85]	CAW Proposed Single Family Rate[86]	ORA Proposed Single Family Rate
Tier 1	$0.4594	$0.5257	$0.4992
Tier 2	$0.6892	$0.7886	$0.7487
Tier 3	$1.8378	$1.8400	$1.7470
Tier 4	$3.6760	$3.4171	$3.4941
Tier 5	$4.5944	$4.2056	$4.4924

Attachment Table 1B-8: Current and Proposed Multi-Family Rates (per 10s of Cf)

	Current Rate	CAW Proposed Multi Family Rate[87]	ORA Proposed Multi Family Rate
Tier 1	$0.4594	$0.3833	$0.3639
Tier 2	$0.6892	$0.5749	$0.5459
Tier 3	$1.8378	$1.3414	$1.2737
Tier 4	$3.6760	$2.4912	$2.5473
Tier 5	$4.5944	$3.0661	$3.2752

Attachment Table 1B-9: Current and Proposed Non-Residential Rates (per 10s of Cf)

	Non-Residential Rate Differential	Current Rate[88]	CAW Proposed Non-Residential Rate[89]	ORA Proposed Non-Residential Rate
Division 1	100%	$0.6884	$0.6992	$0.7662
Division 2	112.5%	$0.7744	$0.7866	$0.8620
Division 3	125%	$0.8605	$0.8740	$0.9578
Division 4	250%	$1.7210	$1.7479	$1.9156

[85] CAW Schedule No. MO-1 Monterey County District Tariff Area, General Metered Service Residential and Multi-Residential Customers, Revised CPUC Sheet No. 7982-W, date filed Aug. 7, 2015.

[86] CAW Response to ORA DR EO2-002, Q005, Rate Design.xlsx, tab: 2016 Proposed RD.

[87] CAW Response to ORA DR EO2-002, Q005, Rate Design and Revenues.xlsx, tab: 2016 Proposed RD.

[88] CAW Schedule No. MO-1C Monterey County District Tariff Area, General Metered Service Non-Residential Customers, Revised CPUC Sheet No. 7983-W, date filed Aug. 7, 2015.

[89] CAW Response to ORA DR EO2-002, Q005, Rate Design.xlsx, tab: 2016 Proposed RD.

ATTACHMENT 1-C
Comparison of Base Bills under Cal Am's Current Rate Design, Cal Am's Proposed Rate Design, and ORA's Proposed Rate Design

Attachment Table 1C-1: Single Family Residential Base Bill[90] Comparisons

Single Family Residential[91]			
Use (10s of Cf)[92]	Current[93] Base Bill	CAW Proposed[94] Base Bill	ORA Proposed Base Bill
Four Person Household			
[25th] 24.06	$20.57	$29.67	$27.71
[50th] 44.12	$29.65	$41.30	$38.04
[Av] 55.48	$34.79	$50.26	$46.01
[75th] 69.52	$43.31	$61.33	$55.85
[90th] 105.61	$67.82	$116.72	$111.07
[100th] 2012.17	$8,429.12	$8,006.29	$8,868.37
Three Person Household			
24.06	$20.57	$29.67	$27.71
44.12	$29.65	$41.30	$38.04
55.48	$37.17	$50.26	$46.01
69.52	$46.70	$61.33	$55.85
105.61	$88.91	$116.72	$111.07
2012.17	$8,602.34	$8,006.29	$8,868.37
Two Person Household			
24.06	$20.57	$29.67	$27.71
44.12	$32.85	$41.30	$38.04
55.48	$40.57	$50.26	$46.01
69.52	$60.88	$61.33	$55.85
105.61	$154.55	$116.72	$111.07
2012.17	$8,775.56	$8,006.29	$8,868.37
One Person Household			
24.06	$22.62	$29.67	$27.71
44.12	$52.22	$41.30	$38.04
55.48	$91.79	$50.26	$46.01
69.52	$151.27	$61.33	$55.85
105.61	$314.73	$116.72	$111.07
2012.17	$8,948.77	$8,006.29	$8,868.37

90 "Base Bill" here means the total of meter charge and volumetric charge, with no surcharges, taxes, or fees included.

91 Single family customers with 5/8" meter, no outdoor landscaping allotment and no animals.

92 Consumption amounts equal average and quarter-percentiles of actual single family consumption from May, 2014. CAW Responses to ORA DR EO2-001, Q001, *Single Family Res Bills Under Proposed Rate Design Attachment 5.xlsx*.

93 All current amounts throughout this attachment: CAW Response to ORA EO2-002, Q010, Chew Bill Calculator 9-10-15.xlsx.

94 ORA used its own bill calculator to assess CAW's proposed base bills as CAW's bill calculator did not incorporate actual proposed rates as listed in CAW Response to ORA DR EO2-002, Q005, Rate Design.xlsx, tab: 2016 Proposed RD.

Attachment Table 1C-2: Multi-Family Residential Base Bill Comparisons

Multi-Family Residential[95]			
Use (10s of Cf)[96]	Current Base Bill	CAW Proposed Base Bill	ORA Proposed Base Bill
Four Person Household			
[25th] 21.39	$19.36	$25.22	$23.75
[50th] 32.09	$24.20	$30.68	$28.60
[Av] 37.03	$26.44	$33.52	$31.13
[75th] 47.74	$31.29	$39.68	$36.60
[90th] 64.17	$39.67	$59.99	$57.07
[100th] 212.57	$304.28	$499.19	$543.93
Three Person Household			
21.39	$19.36	$25.22	$23.75
32.09	$24.20	$30.68	$28.60
37.03	$26.44	$33.52	$31.13
47.74	$31.91	$39.68	$36.60
64.17	$43.07	$59.99	$57.07
212.57	$452.64	$499.19	$543.93
Two Person Household			
21.39	$19.36	$25.22	$23.75
32.09	$24.68	$30.68	$28.60
37.03	$28.04	$33.52	$31.13
47.74	$35.31	$39.68	$36.60
64.17	$51.20	$59.99	$57.07
212.57	$625.87	$499.19	$543.93
One Person Household			
21.39	$20.80	$25.22	$23.75
32.09	$30.43	$30.68	$28.60
37.03	$39.39	$33.52	$31.13
47.74	$63.75	$39.68	$36.60
64.17	$127.05	$59.99	$57.07
212.57	$799.08	$499.19	$543.93

[95] ORA uses the profile of a multi-family customer with a 5/8" meter, no outdoor landscaping allotment, no large animals. Also, for illustrative purposes, ORA assumes there is only one unit on the customer's premise. This allows a clear picture of the effects of the full meter charge. Each multi-family customer may allocate the charges for its bill amongst its units differently.

[96] Consumption amounts equal average and quarter-percentiles of actual multi-family consumption from May, 2014. CAW Responses to ORA DR EO2-001, Q001, *MultiFamily Res Bills Under Proposed Rate Design Attachment 7.xlsx*.

Attachment Table 1C-3: Low Income Residential Base Bill Comparison Tables

Single Family – Low Income[97]			
Use (10s of Cf)[98]	Current Base Bill	CAW Proposed Base Bill	ORA Proposed Base Bill
Four Person Household			
[25th] 24.06	$16.46	$20.77	$19.39
[50th] 44.12	$23.72	$28.91	$26.63
[Av] 55.48	$27.83	$35.18	$32.20
[75th] 69.52	$34.65	$42.93	$39.09
[90th] 105.61	$54.26	$81.70	$77.75
[100th] 2012.17	$8,413.60	$7,890.79	$8,748.87
Three Person Household			
24.06	$16.46	$20.77	$19.39
44.12	$23.72	$28.91	$26.63
55.48	$29.74	$35.18	$32.20
69.52	$37.36	$42.93	$39.09
105.61	$76.79	$81.70	$77.75
2012.17	$8,590.22	$7,890.79	$8,748.87
Two Person Household			
24.06	$16.46	$20.77	$19.39
44.12	$26.28	$28.91	$26.63
55.48	$32.46	$35.18	$32.20
69.52	$52.21	$42.93	$39.09
105.61	$145.82	$81.70	$77.75
2012.17	$8,766.83	$7,890.79	$8,748.87
One Person Household			
24.06	$18.10	$20.77	$19.39
44.12	$46.89	$28.91	$26.63
55.48	$86.46	$35.18	$32.20
69.52	$145.94	$42.93	$39.09
105.61	$309.40	$81.70	$77.75
2012.17	$8,943.44	$7,890.79	$8,748.87

[97] Single family customers with 5/8" meter, no outdoor landscaping allotment, no animals, with the Low Income Ratepayer Assistance program discount.

[98] Consumption amounts equal average and quarter-percentiles of actual single family consumption from May, 2014. CAW Response to ORA DR EO2-001, Q001, *Single Family Res Bills Under Proposed Rate Design Attachment 5.xlsx*. Cal Am's actual consumption data for low income customers was unclear as to whether those customers were in single or multi-family units, thus ORA used the single family percentiles. Consumption did not vary significantly from the low income use percentiles until the higher percentiles, when low income use dropped. *See* CAW Response to ORA DR EO2-001, Q001, *Low Inc Bills Under Proposed Rate Design Attachment 9.xlsx.*

Attachment Table 1C-4: Non-Residential Base Bill Comparisons

Non-Residential[99]			
Use (10s of Cf)[100]	Current Base Bill	CAW Proposed Base Bill	ORA Proposed Base Bill
Division 1			
[25th] 9.36	$25.70	$26.44	$38.22
[50th] 49.47	$52.96	$54.48	$68.95
[75th] 192.51	$150.18	$154.49	$178.55
[Av] 339.57	$250.12	$257.31	$291.24
[95th] 1300.8	$903.41	$929.37	$1,027.77
[100th]81,883.69	$55,670.18	$57,270.26	$62,773.43
Division 2			
9.36	$26.50	$27.26	$39.12
49.47	$57.16	$58.81	$73.69
192.51	$166.54	$171.32	$196.99
339.57	$278.98	$286.99	$323.76
1,300.80	$1,013.94	$1,043.06	$1,152.36
81,883.69	$62,628.07	$64,426.55	$70,616.23
Division 3			
9.36	$27.29	$28.08	$40.01
49.47	$61.36	$63.13	$78.43
192.51	$182.88	$188.14	$215.43
339.57	$307.81	$316.67	$356.29
1,300.80	$1,124.38	$1,156.74	$1,276.95
81,883.69	$69,579.83	$71,582.85	$78,459.03
Division 4			
9.36	$35.24	$36.26	$48.98
49.47	$103.39	$106.37	$125.81
192.51	$346.44	$356.39	$399.82
339.57	$596.30	$613.44	$681.53
1,300.80	$2,229.51	$2,293.59	$2,522.85
81,883.69	$139,146.44	$143,145.80	$156,887.02

[99] Non-residential customer with a 5/8" meter.

[100] Consumption amounts equal average and quarter-percentiles of actual non-residential consumption from May, 2014. CAW Responses to ORA DR EO2-001, Q001, *Non-Res Bills Under Proposed Rate Design Attachment 11.xlsx*.

ATTACHMENT 1-D
Comparison of Total Bills under Cal Am's Current Rate Design, Cal Am's Proposed Rate Design, and ORA's Proposed Rate Design

Attachment Table 1D-1: Single Family Residential Total Bill[101] Comparisons

Single Family Residential[102]			
Use (10s of Cf)[103]	Current Total Bill	CAW Proposed[104] Total Bill	ORA Proposed Total Bill
Four Person Household			
[25th] 24.06	$30.14	$44.08	$40.45
[50th] 44.12	$43.76	$59.41	$54.39
[Av] 55.48	$51.47	$71.47	$65.39
[75th] 69.52	$67.14	$86.39	$78.99
[90th] 105.61	$114.94	$155.97	$148.39
[100th] 2012.17	$15,389.96	$10,224.41	$11,146.95
Three Person Household			
24.06	$30.14	$44.08	$40.45
44.12	$43.76	$59.41	$54.39
55.48	$58.24	$71.47	$65.39
69.52	$76.81	$86.39	$78.99
105.61	$154.21	$155.97	$148.39
2012.17	$15,712.40	$10,224.41	$11,146.95
Two Person Household			
24.06	$30.14	$44.08	$40.45
44.12	$52.89	$59.41	$54.39
55.48	$67.94	$71.47	$65.39
69.52	$104.54	$86.39	$78.99
105.61	$270.58	$155.97	$148.39
2012.17	$16,034.86	$10,224.41	$11,146.95
One Person Household			
24.06	$36.00	$44.08	$40.45
44.12	$89.29	$59.41	$54.39
55.48	$159.33	$71.47	$65.39
69.52	$267.15	$86.39	$78.99
105.61	$566.13	$155.97	$148.39
2012.17	$16,357.30	$10,224.41	$11,146.95

101 "Total Bill" here means the total amount billed each customer, including meter and volumetric charges as well as all applicable surcharges, taxes and fees.

102 Single family customers with 5/8" meter, no outdoor landscaping allotment and no animals.

103 Consumption amounts equal average and quarter-percentiles of actual single family consumption from May, 2014. CAW Responses to ORA DR EO2-001, Q001, *Single Family Res Bills Under Proposed Rate Design Attachment 5.xlsx*.

104 ORA used its own bill calculator to assess CAW's proposed total bills as CAW's bill calculator did not incorporate actual proposed rates as listed in CAW Response to ORA DR EO2-002, Q005, *Rate Design.xlsx*, tab: 2016 Proposed RD.

Attachment Table 1D-2: Multi-Family Residential Total Bill Comparisons

Multi-Family Residential[105]			
Use (10s of Cf)[106]	Current Total Bill	CAW Proposed[107] Total Bill	ORA Proposed Total Bill
Four Person Household			
[25th] 21.39	$28.33	$38.98	$35.87
[50th] 32.09	$35.58	$46.81	$43.06
[Av] 37.03	$38.96	$50.93	$46.84
[75th] 47.74	$46.21	$59.85	$55.03
[90th] 64.17	$60.06	$86.51	$81.85
[100th] 212.57	$535.95	$678.77	$725.21
Three Person Household			
21.39	$28.33	$38.98	$35.87
32.09	$35.58	$46.81	$43.06
37.03	$38.96	$50.93	$46.84
47.74	$47.97	$59.85	$55.03
64.17	$69.74	$86.51	$81.85
212.57	$807.06	$678.77	$725.21
Two Person Household			
21.39	$28.33	$38.98	$35.87
32.09	$36.95	$46.81	$43.06
37.03	$43.50	$50.93	$46.84
47.74	$57.66	$59.85	$55.03
64.17	$87.35	$86.51	$81.85
212.57	$1,129.52	$678.77	$725.21
One Person Household			
21.39	$32.45	$38.98	$35.87
32.09	$50.57	$46.81	$43.06
37.03	$66.50	$50.93	$46.84
47.74	$109.68	$59.85	$55.03
64.17	$222.86	$86.51	$81.85
212.57	$1,451.98	$678.77	$725.21

[105] ORA uses the profile of a multi-family customer with a 5/8" meter, no outdoor landscaping allotment, no large animals. Also, for illustrative purposes, ORA assumes there is only one unit on the customer's premise. This allows a clear picture of the effects of the full meter charge. Each multi-family customer may allocate the charges for its bill amongst its units differently.

[106] Consumption amounts equal average and quarter-percentiles of actual multi-family consumption from May, 2014. CAW Responses to ORA DR EO2-001, Q001, *MultiFamily Res Bills Under Proposed Rate Design Attachment 7.xlsx*.

[107] ORA used its own bill calculator to assess CAW's proposed total bills as CAW's bill calculator did not incorporate actual proposed rates as listed in CAW Response to ORA DR EO2-002, Q005, Rate Design.xlsx, tab: 2016 Proposed RD.

Attachment Table 1D-3: Low Income Residential Total Bill Comparisons

Single Family – Low Income[108]			
Use (10s of Cf)[109]	Current Total Bill	CAW Proposed Total Bill	ORA Proposed Total Bill
Four Person Household			
[25th] 24.06	$24.34	$31.45	$28.85
[50th] 44.12	$36.10	$43.18	$39.58
[Av] 55.48	$42.75	$52.25	$47.89
[75th] 69.52	$56.09	$63.46	$58.14
[90th] 105.61	$96.64	$114.74	$109.30
[100th] 2012.17	$15,368.77	$9,702.24	$10,620.83
Three Person Household			
24.06	$24.34	$31.45	$28.85
44.12	$36.10	$43.18	$39.58
55.48	$48.40	$52.25	$47.89
69.52	$64.15	$63.46	$58.14
105.61	$137.42	$114.74	$109.30
2012.17	$15,659.62	$9,702.24	$10,620.83
Two Person Household			
24.06	$24.34	$31.45	$28.85
44.12	$43.71	$43.18	$39.58
55.48	$56.46	$52.25	$47.89
69.52	$92.16	$63.46	$58.14
105.61	$258.21	$114.74	$109.30
2012.17	$16,022.48	$9,702.24	$10,620.83
One Person Household			
24.06	$29.22	$31.45	$28.85
44.12	$81.33	$43.18	$39.58
55.48	$151.36	$52.25	$47.89
69.52	$259.18	$63.46	$58.14
105.61	$558.15	$114.74	$109.30
2012.17	$16,349.33	$9,702.24	$10,620.83

[108] Single family customers with 5/8" meter, no outdoor landscaping allotment, no animals, with the Low Income Ratepayer Assistance program discount.

[109] Consumption amounts equal average and quarter-percentiles of actual single family consumption from May, 2014. CAW Response to ORA DR EO2-001, Q001, *Single Family Res Bills Under Proposed Rate Design Attachment 5.xlsx*. Cal Am's actual consumption data for low income customers was unclear as to whether those customers were in single or multi-family units, thus ORA used the single family percentiles. Consumption did not vary significantly from the low income use percentiles until the higher percentiles, when low income use dropped. *See* CAW Response to ORA DR EO2-001, Q001, *Low Inc Bills Under Proposed Rate Design Attachment 9.xlsx*.

Attachment Table 1D-4: Non-Residential Total Bill Comparisons

Non-Residential[110]			
Use (10s of Cf)[111]	Current Base Bill	CAW Proposed Base Bill	ORA Proposed Base Bill
Division 1			
[25th] 9.36	$38.51	$36.12	$54.52
[50th] 49.47	$93.49	$78.52	$99.81
[75th] 192.51	$289.68	$229.76	$261.33
[Av] 339.57	$491.36	$385.24	$427.38
[95th] 1300.8	$1,809.64	$1,401.52	$1,512.77
[100th]81,883.69	$112,324.07	$86,599.81	$92,504.45
Division 2			
9.36	$40.78	$37.90	$56.39
49.47	$105.43	$87.98	$109.71
192.51	$336.11	$266.56	$299.86
339.57	$573.27	$450.15	$495.35
1,300.80	$2,123.30	$1,650.19	$1,773.13
81,883.69	$132,068.65$	$102,253.33	$108,893.83
Division 3			
9.36	$42.31	$39.07	$57.64
49.47	$113.62	$94.16	$116.33
192.51	$367.94	$290.60	$325.62
339.57	$629.40	$492.55	$540.80
1,300.80	$2,338.34	$1,812.62	$1,947.25
81,883.69	$145,604.56	$112,477.84	$119,854.20
Division 4			
9.36	$57.78	$50.78	$70.19
49.47	$195.46	$156.02	$182.64
192.51	$686.40	$531.33	$583.66
339.57	$1,191.12	$917.19	$995.95
1,300.80	$4,490.21	$3,439.28	$3,690.81
81,883.69	$281,061.34	$214,873.89	$229,608.88

[110] Non-residential customer with a 5/8" meter.

[111] Consumption amounts equal average and quarter-percentiles of actual non-residential consumption from May, 2014. CAW Responses to ORA DR EO2-001, Q001, *Non-Res Bills Under Proposed Rate Design Attachment 11.xlsx*.

CHAPTER 2 : AMORTIZATION OF WATER REVENUE ADJUSTMENT MECHANISM IN MONTEREY DISTRICT

I. INTRODUCTION

This chapter presents the Office of Ratepayer Advocate's ("ORA") analysis and recommendations regarding recovery of California American Water Company's ("Cal Am") Water Revenue Adjustment Mechanism ("WRAM") balance[112] amount for the Monterey district, including Ryan Ranch, Bishop and Hidden Hills. Additionally, this chapter presents ORA's recommendations with regard to Cal Am's amortization requests. In developing recommendations, ORA examined Cal Am's Application ("A.") 15-07-019, and workpapers, Cal Am's testimony related to WRAM amortization, transcripts from California Public Utilities Commission ("CPUC" or "Commission") Public Participation Hearings, Cal Am's responses to data requests, and general information relayed during meetings between ORA and Cal Am.

II. SUMMARY OF RECOMMENDATIONS

ORA recommends that the Commission authorize Cal Am to recover and amortize a WRAM balance of $22.1 million, calculated as of December 31, 2014 over a period of five years with no interest. As a result of ORA's proposal, the total surcharge payments collected over the amortization period will be $69.2 million less than Cal Am's proposal. ORA recommends three downward adjustments to Cal Am's proposed WRAM balance in order to address: (1) amounts resulting from a lack of adequate management oversight, (2) adjustments to Cal Am's calculation of its Unaccounted Water ("UAW") Reward/Penalty amount, (3) estimates of 2015 amounts that are not appropriate for recovery in a surcharge, and (4) the results of Cal Am's independent audit.

[112] For ease of understanding, ORA uses the term to "WRAM" to refer to the different components that comprise the balance Cal Am has requested for recovery, including calculations associated with the Modified Cost Balancing Account ("MCBA") mechanism.

ORA recommends adoption of Cal Am's methodology for calculating fixed WRAM surcharges based on a ratepayers' meter size. However, ORA uses the standard meter ratios adopted by the California Public Utilities Commission ("Commission") in CPUC Standard Practice U-7-W, rather than Cal Am's proposed meter ratios.

III. DISCUSSION

Cal Am is seeking to: (a) establish fixed surcharges based upon a customer's meter size to recover WRAM balances totaling $44.2 million for both residential and non-residential customer groups;[113] (b) amortize the recovery over a 20-year period at the company's currently authorized cost of capital, 8.41 percent.

A. History of the WRAM Decoupling Mechanism in Monterey

Commission Decision ("D.") 09-07-021 established a Pilot Program for a conservation rate structure in Monterey district and adopted a WRAM decoupling mechanism.

D.09-07-021 states:

> In the rate design settlement approved elsewhere in today's decision, we adopt a Water Revenue Adjustment Mechanism which ensures that Cal Am will recover all its fixed and variable costs regardless of the amount of water billed.[114] The purpose of this mechanism is to decouple Cal Am's revenue from water sales and to thereby remove any financial disincentives created by aggressive water conservation programs. (Page 56 of D.09-07-021)

[113] Although A.15-07-019 indicates that the total WRAM balance to be collected is $40.6 million, this number represents Cal Am's proposed WRAM balances through 2014; however, Cal Am's workpapers indicate that Cal Am's proposed surcharges are calculated based on recovery of $44.2 million, including estimates of 2015 WRAM balances. CAW Response to ORA DR EO2-001, Q001, *LRF SF NonRes D1 - 20 yrs WRAM at 8.41pct_6.4MGD.xlsx*.

[114] Although D.09-07-021 indicates that the intention of the WRAM is to ensure that "all fixed and variable costs" are recovered, the actual operation of the WRAM mechanism also allows estimated costs to be recovered whether they are incurred or not, since adopted quantity revenues are a function of revenue requirements which are a function of estimated costs for providing service.

The Commission later re-authorized the WRAM decoupling mechanism under all the terms of the previously authorized pilot programs in D.13-07-041. This decision also directed Cal Am to use the same amortization schedules and procedures that were established for other Class A water utilities in D.12-04-048. D.13-04-041, however, splits the recording of the WRAM/MCBA amounts for residential and non-residential customer classes in the Monterey district to prevent potential cross-subsidization.

Phase II of the Commission's Order Instituting Rulemaking ("R") 11-11-008 is currently examining the WRAM/MCBA mechanism. In addition to affordability and rate design, Phase II of R.11-11-008 will analyze and propose actions on issues regarding accounting mechanisms such as WRAM.[115] As requested by the third amended scoping memo in Phase II of R.11-11-008 and noting the similar consumption trends of those water utilities with a full WRAM mechanism and those without, ORA has proposed the following positions on the WRAM-related matters in R.11-11-008:

(a) reintroduction of earnings tests prior to authorizing recovery from memorandum and balancing accounts (including WRAM);

(b) recognition of the risk-transferring effects of WRAM and other decoupling mechanisms;

(c) reconsideration of Water Conservation Memorandum Account ("WCMA") mechanism which more accurately isolates the effects of conservation; and

(d) creation of better customer communications and incentives.

[115] Page 3-4 (Discussion Section) of the "Third Amended Scoping Memo and Ruling Establishing Phase II" of R.11-11-008 issued on April 30, 2015.

B. Components of the WRAM Balance in the Monterey District

Cal Am's calculation of the Monterey District's WRAM balance consists of three components: (1) the under-collection of quantity revenue, (2) the under/over-collection of certain variable costs tracked in the Modified Cost Balancing Account ("MCBA") amount, and (3) an Unaccounted Water ("UAW") Reward/Penalty amount.

The biggest component of the Monterey WRAM balance is the accumulated under-collection of quantity revenues recorded by Cal Am which is approximately 97 percent of Cal Am's total requested amount as of December 31, 2014. Cal Am tracks the difference between total quantity-charge revenues authorized by the Commission ("Total Adopted Quantity Revenues") and the total quantity revenues actually recovered from sales of water ("Total Actual Quantity Revenues") on an annual basis. The annual under-collection amount is calculated by subtracting actual quantity revenues from adopted quantity revenue.

The MCBA, a cost-recovery mechanism, is the second component of the historical WRAM balance. Cal Am tracks the actual costs of purchased water, purchased power, and pump taxes and compares these actual costs with the adopted amounts and records the variance in the MCBA. The annual MCBA balance amount is netted with the WRAM balance amount. The MCBA component of the total WRAM balance is approximately negative one percent of the total WRAM balance.

The UAW Reward/Penalty amount is the third component of the Monterey district's WRAM balance and is approximately four percent of the total WRAM balance. The UAW reward/penalty is calculated on the basis of adopted and actual unaccounted for water (also known as non-revenue water) in the Monterey district. The "unaccounted for water" is the difference between water supplied to a system and water actually billed to customers of the system.

Cal Am calculates the UAW Reward/Penalty amount per D.12-06-016 and includes the result in its WRAM balance (*see* section (III) (C) (1), below). The UAW Reward/Penalty Mechanism was first introduced in the Monterey district in D.09-07-021 in order to reduce total unaccounted for water.[116] Subsequently, D.12-06-016 set a target level of unaccounted for water for the Monterey district. These decisions laid out procedures for calculating a UAW reward/penalty amount.[117] In summary, if Cal Am has less unaccounted for water than the target level it will earn a reward and if Cal Am has more unaccounted for water than the target level, it receives a penalty. Any reward or penalty is added or subtracted, respectively to the WRAM balance.[118] The summary of UAW Reward/Penalties calculated by Cal Am from 2011 to 2014, along with production and sales, is as follows:

Table 2-A: Overview of Unaccounted for Water ("UAW") Reward/Penalty Mechanism in Monterey Main (Including Bishop, Hidden Hills, and Ryan Ranch)

Year	UAW Reward/Penalty Amount	Reward or Penalty	Water Production in 10s of Cf	Water Sales in 10s of Cf	Unaccounted Water in 10s of Cf	Unaccounted Water in Percentage	Source
2011	$(709,007)	Penalty	52,850,461	46,356,002	6,494,459	12.29%	AL 938
2012	$696,949	Reward	50,392,212	47,409,138	2,983,074	5.92%	AL 1009
2013	$(90,666)	Penalty	49,463,164	44,370,529	5,092,635	10.30%	AL 1057
2014	$2,116,324	Reward	44,647,638	45,052,578	(404,940)	-0.91%	AL 1076

116 D.09-07-021 at p. 56, Paragraph 1.

117 UAW reward/penalty calculation procedures are laid out in Page 57-58 of the D. 09-07-021. D.12-06-016 updates a few parameters such as volume of unaccounted water, rates of unaccounted water, etc.

118 ORA noted inconsistencies in the source data upon which the UAW is calculated. Per Cal Am's 2014 reward calculation, Cal Am sold a total of 10,040.10 acre feet of water in the Monterey Main system in 2014, while the total production of water during the same period was only 9,897.85 acre feet. Thus, according to Cal Am, it distributed 142.25 more acre-feet of water than it actually produced. This indicates susceptibility of abuse of UAW Reward/Penalty mechanism, which should be reviewed in Cal Am's upcoming rate case.

C. ORA's Analysis and Recommendations

1. ORA's Estimation of Cal Am's WRAM Balance

ORA recommends adoption of a $22.1 million WRAM balance as of December 31, 2014 for Cal Am's Monterey district. ORA's recommended WRAM balance reflects four adjustments: (1) a reduction of $17.4 million to reflect under collections resulting from inadequate managerial oversight of the allotment system; (2) adjustments to Cal Am's calculation of its Unaccounted Water ("UAW") Reward/Penalty amount, (3) a $3.6 million reduction based on the improper inclusion of 2015 estimated under collections; and (4) the $0.7 million recommended reduction resulting from Cal Am's submitted audit.[119]

ORA's calculation of the WRAM balance is based not only on an analysis similar to that performed in a financial audit, but also in a regulatory audit, or a review of the reasonableness of recovery from a ratemaking perspective. While a financial audit, such as the audit required of Cal Am in this proceeding,[120] looks into the past performance of a company and examines if financial information has been presented fairly in all material respects, a different standard applies when the Commission exercises its ratemaking authority. In regulatory audits, regulators review the reasonableness and appropriateness of the requests in addition to the accuracy of the financial information. ORA's recommendations reflect a regulatory review and operational audit of the WRAM balance, not only ensuring that Cal Am's calculations are accurate with regards to reported totals, but also that amounts can be found to be just and reasonable prior to authorizing recovery.[121]

---

[119] Independent Auditor's Report presented by PricewaterhouseCoopers LLP, an auditor, on January 18, 2016 to the Management of California American Water Company.

[120] Assigned Commissioner's Scoping Memo and Ruling, A. 15-07-019, issued Nov. 14, 2015, at 8.

[121] Public Utilities Code Section 451.

First, ORA recommends a reduction of $17.4 million to Cal Am's proposed WRAM balance. This is the amount reasonably estimated to be the result of inadequate managerial oversight of Cal Am's residential allotment rate design. Chapter 1 and Attachment 1-A of this report describe Cal Am's allotment system, the evidence of mismanagement apparent in Cal Am's data, and ORA's methodology for calculating its recommended reduction.

Additional support for this recommendation can be found when examining Cal Am's reported sales and correlating them to the years in which Cal Am reported under collections. In 2012, Cal Am recorded an under-collection in quantity revenues of $9.3 million, even though 2012 reported actual sales were *greater* than the 2012 adopted sales. (*See* Table 2-B, below.) As previously mentioned, the WRAM/MCBA decoupling mechanism was adopted in D.09-07-021 to remove disincentives for Cal Am to pursue conservation. It is incongruous for Cal Am to be recovering under-collections in years, such as 2012, when not only did no conservation occur but actual consumption was greater than that adopted by the Commission.

Table 2-B: Residential Sales in Acre Feet[122]

Year	Authorized	Actual	Actual Sales > Authorized Sales
2010	7,807	7,140	-667
2011	7,807	7,202	-605
2012	7,219	7,392	173
2013	7,278	6,865	-413
2014	7,278	6,951	-327

Chapter 1 details how Cal Am is able to sell more water than was adopted and yet report less revenue than authorized. As explained in Chapter 1 approximately $17.4 million of the WRAM balance presented by Cal Am in this proceeding can be attributed

[122] Table 1 of Direct Testimony of Jeffrey Linam at p. 6

to inadequate management oversight of the allotment system and therefore removed from the WRAM balance that Cal Am requests to recover.

Next, ORA adjusts Cal Am's proposed WRAM balance to account for anomalies in the UAW reward calculation. As mentioned in footnote 118, above, ORA noted inconsistencies in the source data from which Cal Am calculates its proposed UAW reward. Per Cal Am's 2014 reward calculation, Cal Am sold a total of 10,040.10 acre feet of water in the Monterey Main system in 2014, while the total production of water during the same period was only 9,897.85 acre feet. Thus, according to Cal Am, it distributed 142.25 more acre-feet of water than it actually produced. Even in an ideal situation where there are zero system leaks and no evaporation in the system, a recording of negative water loss is impossible. Therefore, ORA reduced 142.25 acre-feet of water from the total sales in calculating a UAW reward for 2014. ORA's adjustment reduces the proposed WRAM balance by $258,932.

ORA's third adjustment reflects the inappropriate inclusion of $3.6 million in estimated under-collections for 2015. While Cal Am states in its application that the WRAM balance for which it seeks authorization in this proceeding totals $40.6 million, Cal Am's proposed surcharges reflect a WRAM balance of $44.2 million, which includes estimates for 2015 under-collections. The WRAM amount authorized to be recovered in this proceeding should be based upon the recorded balances with adjustments made for accuracy and reasonableness.[123] Cal Am's proposal of using estimated amounts would allow additional amounts to be recovered prior to the final WRAM balance for 2015 being known followed by yet another true-up at some later date. Therefore, ORA

[123] Answer 27 (A27) and note 13 of Direct Testimony of Jeffrey Linam at p. 19; D.09-07-021, Attachment A: "[t]he Monterey WRAM will track the difference between the total quantity charge revenues authorized by the Commission "("Total Adopted Quantity Revenues") and the total revenues *actually recovered* through the quantity charge based on *actual sales* ("Total Actual Quantity Revenues") during conservation rates, emergency rates, or rationing rates […]." (Emphasis added.)

recommends that the commission not allow Cal Am to use estimated amounts in calculating surcharges.

Finally, ORA adjusted Cal Am's proposed historical WRAM balance per Cal Am's request to adjust the balance after an external auditor performed a financial audit on its proposed WRAM balance, as directed by the scoping memo of this proceeding. This adjustment reduces Cal Am's proposed WRAM amount by a total of $0.7 million.

In sum, ORA recommends adoption of a $22.1 million WRAM balance as of December 31, 2014 to be available for recovery within Cal Am's Monterey district.

2. Amortization of Proposed WRAM Balance

a. Single fixed rate surcharge based on meter sizes

ORA recommends that the Commission adopt Cal Am's request to collect its WRAM surcharges on the basis of meter size for both residential and non-residential customer classes. However, in calculating proposed meter size charges, Cal Am deviates on two occasions from the application of the CPUC's standard meter ratios[124] to determine meter charges.

First, ORA recommends Cal Am's proposed use of monthly meter charges rather than variable charges as the basis for its WRAM surcharge collection. Though Commission standard practice is for WRAM balances to be collected through surcharges on quantity sales, Cal Am's proposal of utilizing surcharges based on meter sizes is reasonable as it removes the links between surcharge collection and water consumption. This stabilizes the collection of authorized balances. The Monterey district is experiencing not only large under-collections but also intense pressure to conserve based

[124] CPUC Standard Practice U-7-W at p. 5

on state-mandated conservation due to the drought as well as local constraints on its water supply system. Modification of the basis of the WRAM surcharges will allow Cal Am to address its significant under-collections despite the potential for fluctuating consumption.

Second, ORA recommends that Cal Am use CPUC standard meter ratios to determine its monthly WRAM surcharges. The Commission's standard meter ratios ensure equitable distribution of recovery across meter sizes, in proportion to their ability to receive different water flow rates. However, Cal Am unreasonably deviates from Commission ratios for two meter sizes, severing the link between meter size and proportionate maximum flow.

In determining monthly WRAM surcharges based on meter size, Cal Am first calculates the annual amount to be amortized by utilizing a method similar to that used when amortizing a mortgage.[125] After determining the annual amount to be amortized, Cal Am determines the base surcharge, (or the lowest monthly surcharge amount, applied to the smaller meter size), using the methodology for determining meter ratios adopted in CPUC Standard Practice U-7-W. Cal Am first determines the number of total meter equivalents by multiplying the number of water meters at each meter size by the corresponding equivalent ratios[126]. Cal Am then divides the annual amount to be amortized by the number of total meter equivalents. The resulting amount is divided by twelve months in order to determine a base monthly surcharge to be applied to the

[125] Loan amortization describes the set schedule for paying off a loan with principal and interest in such a way that the total of principal and interest payed in each period remains equal throughout the amortization period. Amortization of a loan takes place over a set period of years with interest payments much higher at the beginning of a loan and more going toward principal as the loan nears maturity.

[126] Cal Am uses meter service charge ratios similar to the ratios established by Standard Practice U-7-W, except for 3/4 inch and 1 inch size meters. The ratios for ¾ inch and 1 inch size meters are slightly higher than the ratios set by SP U-7-W.

smallest meter size. This surcharge amount is multiplied by the Commission's standard meter ratios to determine their corresponding monthly surcharge amounts.

While Cal Am follows the methodology adopted by the CPUC in SP U-7-W in using equivalent meter ratios, Cal Am deviates from the application of standard meter ratios on two occasions, for ¾ inch and 1 inch meter sizes, as shown in Table 2-C below.

Table 2-C: Meter Size Ratios

Meter Size	As per Cal Am	As per U-7-W
5/8x3/4 inch	1.0	1.0
3/4 inch	2.0	1.5
1 inch	3.0	2.5
1-1/2inch	5.0	5.0
2 inch	8.0	8.0
3 inch	15.0	15.0
4 inch	25.0	25.0
6 inch	50.0	50.0
8 inch	80.0	80.0

ORA recommends the Commission adopt WRAM surcharges for Cal Am based on the Commission's standard meter charge ratios, as these ratios reasonably correlate charges to the proportional maximum flow of each particular meter.

Finally, as noted above, Cal Am requests to amortize $40.6 million of WRAM balances as of 2014; however, its surcharge calculation is based on $44.2 million. Cal Am estimates $3.6 million of under-collection for 2015. ORA excludes the estimated amount from the surcharge calculation because surcharge calculations should be based on actual WRAM balances, rather than estimations, as described above. Cal Am's proposed meter charges and ORA's recommended meter charges are compared in Tables 2-D and 2-E, below.

Table 2-D: ORA and Cal Am proposed monthly surcharges for residential customers

Meter Sizes	ORA	Cal Am	Cal Am>ORA	Cal Am>ORA
5/8 Inch Meter	$5.61	$7.16	$1.55	28%
3/4 Inch Meter	$8.41	$14.31	$5.90	70%
1 Inch Meter	$14.02	$21.47	$7.45	53%
1 1/2 Inch Meter	$28.03	$35.78	$7.75	28%
2 Inch Meter	$44.85	$57.25	$12.39	28%
3 Inch Meter	$84.10	$107.34	$23.24	28%
4 Inch Meter	$140.16	$178.89	$38.73	28%
6 Inch Meter	$280.33	$357.78	$77.46	28%
8 Inch Meter	$448.53	$572.46	$123.93	28%

Table 2-E: ORA and Cal Am proposed monthly surcharges for non-residential ratepayers

Meter Sizes	ORA	Cal Am	Cal Am>ORA	ORA>Cal Am
5/8 Inch Meter	$8.39	$2.86	$5.53	193%
3/4 Inch Meter	$12.59	$5.72	$6.87	120%
1 Inch Meter	$20.98	$8.58	$12.40	144%
1 1/2 Inch Meter	$41.96	$14.30	$27.66	193%
2 Inch Meter	$67.13	$22.88	$44.25	193%
3 Inch Meter	$125.87	$42.90	$82.97	193%
4 Inch Meter	$209.78	$71.51	$138.28	193%
6 Inch Meter	$419.57	$143.01	$276.55	193%
8 Inch Meter	$671.31	$228.82	$442.48	193%

b. Recovery period of the WRAM Balance

ORA recommends a five-year amortization period for Cal Am's WRAM balance. Cal Am argues that 20 years of amortization is necessary in order to reduce ratepayers' monthly bills that would otherwise increase drastically if a shorter amortization period is

chosen, reducing what Cal Am refers to as "rate shock."[127] However, should the Commission allow rate of return to be collected on Cal Am's amortization, Cal Am's proposal of 20-year amortization period will drastically increase Cal Am's total collection over the amortization period. To illustrate, if Cal Am's proposal is adopted Monterey district ratepayers will pay roughly $91.3 million in total surcharges to recover the proposed $40.6 million WRAM balance. This means ratepayers will have to pay an *additional $47.2 million in interest alone*.

Further, Cal Am's proposed 20-year amortization period undermines intergenerational equity concerns. If Cal Am's proposal is adopted, truly a different generation of ratepayers may have to pay WRAM surcharges for WRAM balances which accumulated during previous periods. ORA proposes that Cal Am amortize the ORA-proposed WRAM balance of $22.1 million over the course of five years. ORA's amortization reflects a reasonable balance between intergenerational equity concerns and the need to reduce rate shock, especially given other increases to rates that may result from Cal Am's current application.[128]

c. Interest Rate During Recovery Period

ORA proposes that no interest accrue on the WRAM balance while it is being recovered for three reasons. First, the current WRAM balance already reflects the inclusion of a rate of return so applying interest in this case would result in double recovery. Second, there will be virtually no risk for Cal Am once the amount to be recovered is authorized by a Commission final decision. Third, Cal Am's request to apply its authorized rate of return on the WRAM balance inappropriately capitalizes upon a common misperception that the WRAM balance reflects a "debt" that must be repaid.

[127] Answer 32 (A32) of Direct Testimony of Jeffrey Linam at p. 26.

[128] *See* Chapter 1 on Rate Design Issues.

The WRAM Balance Already Incorporates a Rate of Return

As previously mentioned, the WRAM calculates the difference between actual billed quantity revenues and adopted quantity revenues. Adopted quantity revenues are calculated directly from adopted revenue requirements.[129] As part of the ratemaking process, adopted revenue requirements already include an authorized rate of return. From this perspective, to again apply Cal Am's authorized rate of return on top of the WRAM balance would result in a double-recovery. To twice apply Cal Am's authorized rate of return—once in calculating revenue requirements and then again on the WRAM balance which is a function of those very same revenue requirements—is unreasonable.

A Decision Approving a WRAM Recovery Amount Removes Risk

The Commission has repeatedly acknowledged that an equity return is a market return for the assumption of similar risk in comparable investment choices.[130] Since the "risk-free" rate of U.S. Treasuries is currently below two percent,[131] Cal Am's request to apply its currently authorized rate of return of 8.41% to the WRAM balance while it is being recovered implies there is significant risk associated with collection. However, once a final decision in this proceeding determines the WRAM balance to be recovered, the amount will be transferred into a balancing account where it will remain until recovered through customer surcharges. The risk associated with this activity is minimal and certainly not commensurate with Cal Am's requested return of 8.41 percent.

A WRAM Balance is not a "Debt" to be Repaid

A misconception heard numerous times during the Public Participations Hearings that were held in this proceeding is that the WRAM balance is a debt that must be

[129] During a general rate case, total adopted revenue is established to exactly equal revenue requirements.

[130] D.10-10-035 at p. 22; D.09-05-019 at p. 35; D.04-12-047, p. 24.

[131] 10-year U.S. Treasury yields were 1.84% as of February 5, 2016.

repaid.[132] It needs to be made abundantly clear that the WRAM balance is not a debt. The WRAM balance is a regulatory asset that has been created by Cal Am based upon a ratemaking calculation that relies upon Commission-adopted revenue requirements. The terms "revenue requirements" and "regulatory asset" possess meaning only within the context of the Commission's jurisdictional oversight of ratemaking. When determining the interest rate, if any, to apply to the WRAM balance during the recovery period, it is misleading to consider the WRAM balance a debt that must be repaid.

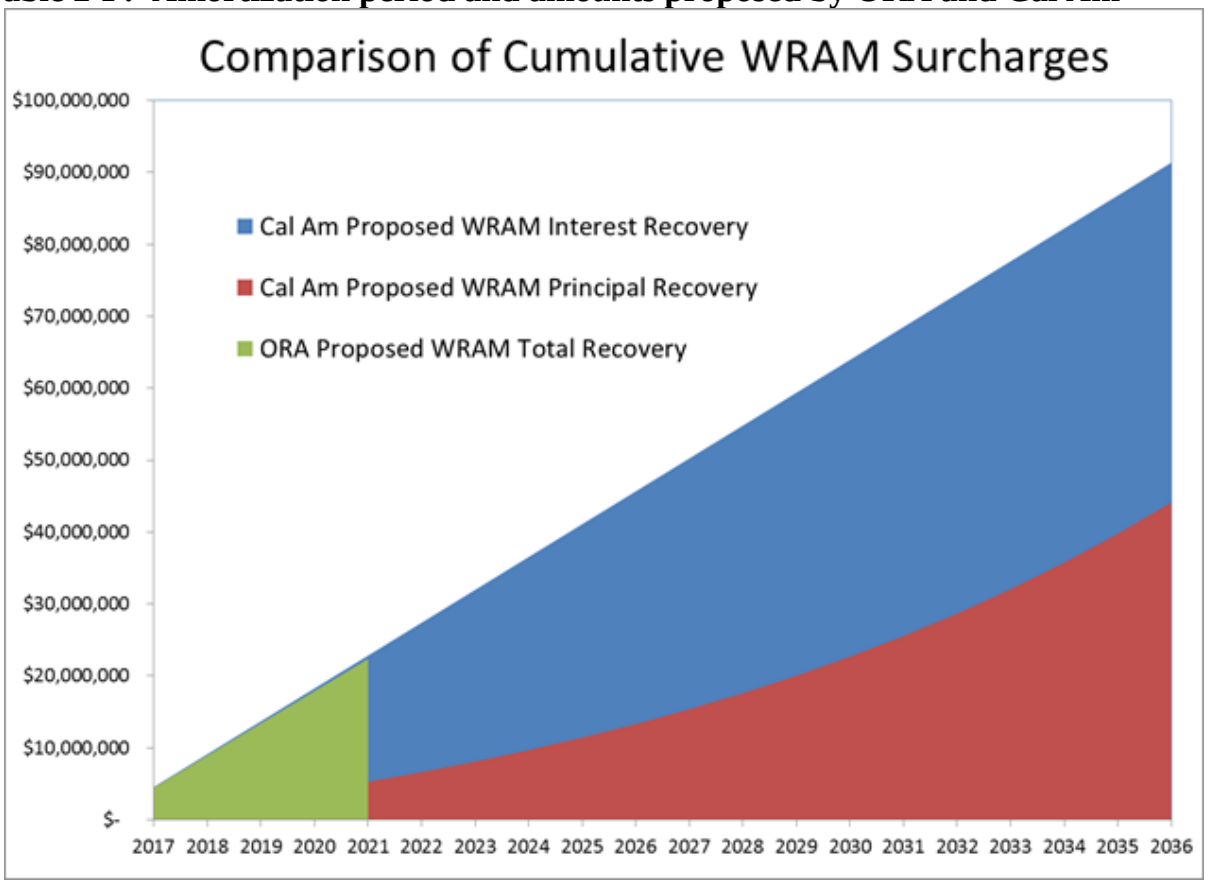
The calculations for both the $40.6 million WRAM balance requested by Cal Am and the $22.1 million recommended by ORA are based upon the operation of a ratemaking mechanism that permits Cal Am to track anticipated revenues that were not actually collected. If anticipated revenues are not actually collected yet a company is able to remain profitable during the same period, the ability to recover such "lost" revenues at a later point in time does not provide for payment of some non-existent debt, but rather for additional profit. Within the context of providing additional profit to Cal Am and regardless of the amount approved for recovery, the WRAM balance should not be authorized to accrue additional interest in any amount.

D. Impacts of ORA's Proposal Concerning WRAM Balance and Amortization

As a result of ORA's proposal, the total of WRAM surcharges that ratepayers pay will be reduced by $69.2 million as compared to Cal Am's proposal. ORA's proposal also significantly reduces intergenerational inequity issues created by Cal Am's proposal. ORA proposes five years of amortization with no additional interest. In ORA's proposal, ratepayers will pay a total of about $22.1 million in WRAM surcharges on a WRAM balance calculated as of December 31, 2014.

[132] The term "debt" can be found more than forty times in the transcript of the Public Participation Hearings held January 27, 2015, in this proceeding.

Table 2-F: Amortization period and amounts proposed by ORA and Cal Am



E. Cal Am's Future WRAM Filings should be Reviewed in Formal Proceedings, Rather than through Advice Letters

ORA recommends that the Commission require Cal Am to file requests for recovery of future Monterey WRAM balances as applications in formal proceedings, rather than as advice letters. As noted throughout this report, ORA has identified a number of concerns regarding the data that Cal Am has provided to support its requested Monterey WRAM balance. The time necessary for the close scrutiny and discovery process necessary to fully review and form recommendations in such circumstances exceeds that permitted in informal proceedings. The "ministerial" nature of such a truncated review further precludes the type of discovery and analysis conducive to fact-finding.

Finally, the magnitude of the WRAM issues in Monterey, including the size of the currently-proposed balance, as well as, Cal Am's request for a full rate-of-return as interest on such a balance, should be subject to the notice requirements applicable to formal proceedings. As noted in the Public Participation Hearing held in this proceeding, Cal Am did not send customers notice of the proposed $40.6 million WRAM balance, nor of its request to amortize this balance over 20 years at its currently-authorized rate of return.[133] Following the Public Participation Hearing, ORA was able to confirm this serious omission in a response to an ORA discovery request.[134]

Without the publicity surrounding this formal proceeding, Cal Am customers would be unaware of the current issues stemming from the WRAM balance in Monterey. In order for all interested parties, including the Division of Water and Audits, ORA and Cal Am's ratepayers, to have adequate time to meaningfully participate in this the review of annual WRAM filings, the Commission should require Cal Am to submit its Monterey WRAM recovery requests as applications.

IV. CONCLUSION

ORA recommends that the Commission adopt ORA's proposal to amortize a WRAM balance of $22.1 million (as of December 31, 2014) over a five-year period with no interest and surcharges to collect the WRAM balance be based on meter size using the Commission's standard meter charge ratios. ORA also recommends that Cal Am file future Monterey WRAM recovery requests though a formal application

[133] A.15-07-019 Public Participation Hearing, Jan. 27, 2016, Transcript at p. 277, beginning line 16.
[134] CAW Response to ORA DR EO2-007, Q003.

CHAPTER 3 : REQUEST FOR AN ANNUAL CONSUMPTION TRUE-UP MECHANISM

I. SUMMARY OF REQUEST

In its application, Cal Am requests implementation of a pilot program in its Monterey District that would involve "an annual true up of the consumption for both residential and commercial customers to set rates for the following year."[135] [136] Cal Am proposes that this pilot program set rates via the following process:[137]

- Cal Am would file an annual Tier 2 advice letter on or before November 15 of each year.
- The advice letter would provide the recorded consumption for the Monterey District by customer class from October 1 of the prior year through September 30 of the current year.
- The recorded consumption in the advice letter filing would replace the adopted quantities beginning January 1 of the subsequent year.
- The recorded consumption in the advice letter filing would be used for all future rate adjustments, including all annual step and offset filings, until the adopted quantities are updated the following year.

Cal Am asserts that this mechanism is necessary to:

- Reduce the numerous surcharges on customer bills.[138]

[135] Direct Testimony of Jeffrey T. Linam at p. 4.

[136] The Direct Testimony of Jeffrey T. Linam refers to the program as an "annual residential true-up pilot program" at p. 24, however p. 1 states that the pilot program would involve an annual true up for both residential and commercial customers, and footnote 17 on p. 24 confirms that the process would apply to all customer classes including commercial customers.

[137] Ibid at p.24.

[138] Ibid at p. 25.

- Simplify rates and further the Water Action Plan goal of streamlining regulation.[139]
- Provide the right pricing signals so that all conservation and use restriction signals are timely and consistently provided to customers.[140]
- Lower rates to customers by shortening the period that accounts accrue interest.[141]
- Work to lower financing costs for the Monterey Peninsula Water Supply Project ("MPWSP").[142]

Cal Am acknowledges that the proposal is unique,[143] and justifies the request by claiming that:

- Similar approaches are used for Energy Investor-Owned Utilities ("IOUs");[144]
- The request is in compliance with Final Decision in Cal Am's most recent GRC.[145]

II. SUMMARY OF RECOMMENDATIONS

ORA recommends that the Commission deny Cal Am's request for an annual consumption true-up pilot program, for the following reasons:

- The annual consumption true-up pilot program would not provide the benefits that Cal Am claims the program would provide.

[139] Ibid at p. 25-26.
[140] Ibid at p. 25.
[141] Ibid at p. 26.
[142] Ibid at p. 26.
[143] Ibid at p.24.
[144] Ibid at p. 24-25.
[145] Ibid at p. 25, referencing D.15-04-007.

- The proposal is not justified.
- Adjustments to adopted consumption values necessitate scrutiny beyond that which can be provided in an advice letter filing.
- An in-progress multi-utility rulemaking is currently examining this policy issue for all Water IOUs.

III. DISCUSSION

A. The annual consumption true-up pilot program would not provide the benefits that Cal Am claims the program would provide.

Cal Am claims that the annual consumption true-up pilot program would provide numerous ratepayer benefits, as discussed below.[146]

1. Reduce the numerous surcharges on customer bills.

As Cal Am does not propose eliminating any surcharges, the proposal would not reduce the number of surcharges on customer bills. The number of surcharges would remain the same.

2. Simplify rates and further the Water Action Plan goal of streamlining regulation.

The proposal would not simplify rates or streamline regulation. The proposal increases the number of required filings for Cal Am, thereby requiring additional analysis by Cal Am and regulatory agencies – the antithesis of the Water Action Plan's goal of streamlining regulation. The result of these additional filings is that rates could change

[146] All numbered items from Direct Testimony of Jeffrey T. Linam, pp. 25 - 26

more frequently, thereby making rates more complex and more difficult for customers to predict and understand.

3. Provide the right pricing signals so that all conservation and use restriction signals are timely and consistently provided to customers.

The proposal could easily result in providing customers with inappropriate price signals for conservation and use restriction at times when such signals may be needed most. If consumption in the Monterey District unexpectedly increased above the previously forecasted and adopted consumption, Cal Am's proposal would set new higher adopted consumption for the following year. All other things being equal, the increased adopted consumption would thereby lower rates. This would provide the wrong price signal for conservation, and the lower rates could jeopardize Cal Am's ability to meet the use restrictions in place for the Monterey District.[147]

4. Lower rates to customers by shortening the period that accounts accrue interest.

This benefit would occur if and only if the proposed pilot program resulted in lower WRAM balances than would occur without the pilot program. It is speculative to assume that the pilot program would increase the accuracy of sales forecasting, thereby lowering potential WRAM balances. Cal Am provides no evidence of a correlation between more frequent consumption adjustments and lower WRAM balances, and does not discuss the potential for this pilot program to result in a reduced or slower accrual of WRAM balances. ORA has not seen evidence of a correlation between more frequent

[147] For a more detailed description of the effect of sales reconciliation mechanisms on price signals, *see* pp. 12-13 of ORA's Comments on the October 2015 Workshop Report in Rulemaking 11-11-008.

consumption adjustments and improved sales forecasting in this or other Water IOU proceedings.

If lowering WRAM balances is of primary concern to Cal Am, a more practical and justified way of achieving this goal would be to: a) adjust the existing WRAM balances to sufficiently account for previous manipulations of WRAM balances,[148] b) eliminate interest from accruing on WRAM balances,[149] and c) implement the necessary management oversight to mitigate against WRAM manipulations in the future.

5. Work to lower financing costs for the MPWSP.

Cal Am claims that the proposed pilot program will lower financing costs for the MPWSP by lowering the overall risk profile of the securitized debt.[150] However, Cal Am has not provided any evidence that a pilot program in just one of Cal Am's ratemaking districts would make a significant difference in its parent company's credit rating.[151]

The annual consumption true-up pilot program proposed by Cal Am does not provide the above benefits claimed by Cal Am. Instead, the program would result in more frequent rate changes, less streamlined regulation, and potentially inappropriate price signals to customers.

[148] As discussed in Chapter 1 of this testimony.

[149] Ibid.

[150] Direct Testimony of Jeffrey Linam at p. 26, and Direct Testimony of David Stolt at p.11.

[151] Currently, Cal Am is not separately rated and accounts for approximately 8% of its parent company's revenues.

A. The annual consumption true-up pilot program proposal is not justified.

Cal Am acknowledges that its pilot program proposal is unique,[152] but justifies the request by claiming that:

- Similar approaches are used for Energy IOUs;[153]
- The request is in compliance with the Final Decision in Cal Am's most recent GRC.[154]

In regards to the first claim, Cal Am states that the proposal "is similar to approaches used on the energy side to better match demand, cost allocation and rate design." However, the approaches are not in fact similar. Cal Am states:

> The gas utilities also adjust demand forecasts for each year of its general rate case. This is handled through the triennial cost allocation proceedings. Similarly for electric utilities in California, there is a second phase of their GRC proceedings that involve establishing a separate demand forecast for each year of the rate case process.[155]

The gas utilities adjust demand forecasting in a cost allocation *proceeding*, and the energy utilities establish demand forecasts in a GRC *proceeding*. Adjusting and establishing demand forecasting in the context of a proceeding is not akin to adjusting and establishing demand forecasting in a Tier 2 advice letter filing, with the adjustment pre-determined to match the previous year's consumption. An advice letter filing does not allow for the same level of analysis as a proceeding affords. The electric and gas proceedings also do not have a pre-determined adjustment amount established in a

[152] Ibid at p.24.
[153] Ibid at pp. 24-25.
[154] Ibid at p.25, referencing D.15-04-007.
[155] Ibid at pp. 24-25.

Commission decision, as would be the case if Cal Am's pilot program request were authorized.

Cal Am further claims that the request for the pilot program is "in compliance with D.15-04-007."[156] The decision referenced denies Cal Am's request for a consumption adjustment mechanism ("CAM") similar in nature to a sales reconciliation mechanism ("SRM") pilot program authorized for the California Water Service Company ("Cal Water") in Cal Water's 2012 GRC (A.12-07-007). With regard to Cal Am's request for a CAM, the decision states:

> Given the complexity and experimental nature of Cal Water's SRM, authorizing further pilot programs based on Cal Water's mechanism before a review is completed could lead to flawed designs and unintended consequences being replicated in other pilot programs. However Cal-Am may seek authorization to implement a CAM in either its next GRC or through another application filed prior to its next GRC.[157]

Technically, the decision does authorize Cal Am to seek authorization to implement a CAM through another application, as Cal Am seeks in this proceeding. However, the decision also discusses the potentially flawed designs and unintended consequences of authorizing consumption adjustment pilot programs before the Cal Water pilot program review is completed. The implication is that Cal Am may seek authorization to implement a CAM after the Cal Water pilot program review is complete. The Cal Water pilot program review has yet to be completed. Therefore, it is premature to re-consider a CAM for Cal Am.

[156] Ibid at p. 25.

[157] D.15-04-007 at p. 21.

B. Adjustments to adopted consumption values necessitate scrutiny beyond that which can be provided in an advice letter filing.

Cal Am proposes to adjust adopted consumption values via advice letter filing. However, adjusting adopted consumption values and associated rates requires a level of scrutiny beyond that which can be provided in an advice letter filing, in general, and even more specifically for Cal Am. In general, sales forecasting and customer usage depends on a number factors, including (but not limited to) weather, economics, drought mandated reductions, changes to codes and standards, estimated number of new users, bill adjustments, and unaccounted for/non-revenue water. It would not be possible to assess this wide variety of factors in the context of a Tier 2 advice letter.

Cal Am's proposed pilot program would not assess any of these factors, and would instead make adjustments exclusively based on the previous year's consumption. However, even this "simple" adjustment would likely be problematic within the context of a Tier 2 advice letter filing, given that ORA and DWA would need to validate Cal Am's consumption data within a short timeframe. As noted in previous chapters of this testimony, Cal Am has provided conflicting data in filings and data request responses on a variety of occasions, for wide-ranging issues.[158] In line with this issue, ORA has had difficulty validating Cal Am's consumption data within the context of this proceeding. In fact, at different times and in different submissions to the Commission, Cal Am has offered five different numbers for the amount of residential consumption in the Monterey Main system in 2013. Table 3-A shows some of Cal Am's conflicting reports of consumption data.

[158] *See, e.g.*, Chapter 1, note 22; Chapter 2, note 114. *See generally* Chapter 2 at 2-15.

Table 3-A: Cal Am's Consumption Data Reporting.

Consumption: Monterey Main (HH, RR, B)							
2013 GRC Monterey County							
Total Use (CCF)	Esc. Year 2016 Settlement[1]	Proposed (2014 Actual Use)[2]	1st Supp Proposed (2014 Actual Use)[3]	2nd Supp Proposed (2014 Actual Use)[4]	Rate Design workpaper, tab: 2016 Proposed RD	2014 WRAM/MCBA Annual Report[5]	AL1076, WRAM Filing
Monterey Base							
Residential	2,332,543	3,057,457	2,119,675	2,183,905	2,119,675	3,027,948	3,027,948
Mul-Res	687,713	Note [2A]	606,258	745,861	6,062,580	Note[5A]	
Comm & Irr	1,141,274	1,174,596				1,468,539	1,468,539

[1] D.15-04-007, Att. A, at 13, Section 3.2.10

[2] CAW Response to ORA DR EO2-002, Q002. Responses were to include data for the Monterey Main system, as defined in A. 15-07-019, to include Bishop, Ryan Rach, and Hidden Hills.

[2A] In CAW's response to this DR, CAW notes: Residential Category for 2013 and 2014 includes PAR and Multi-Res

[2B] In CAW's response to this DR, CAW notes: Golf Courses category also includes construction and sales for resale.

[3] ORA asked CAW to supplement its reponse to ORA DR EO2-002, Q002, as ORA had asked for Res and Multi Res data to be provided separately. However, when CAW supplied its updated information, the total did not match that originally provided for total residential consumption.

[4] ORA again asked CAW to supplement its reponse, as the SF Res/MF Res data separately provided for in CAW's 1st supplemental response did not equal the total response originally provided. In this, Cal Am's second supplemental response, CAW again provides consumption data that does not total its original (or 1st supplemental) response. Email response from Melody Singh, Oct. 13, 2015.

[5] CAW 2014 Annual Report on the Water Revenue Adjustment Mechanism (WRAM)/Modififed Cost Balancing Accout (MCBA) for its Monterey County District, including the Monterey Main, Bishop, Hidden Hills, and Ryan Ranch Subsystems. Filed with the CPUC Mar. 31, 2015.

[5A] In its 2014 WRAM/MCBA Annual Report, all residential consumption is combined and all non-residential consumption is reported as one figure.

Cal Am's conflicting reports and incomplete data request responses have necessitated multiple requests from ORA to validate Cal Am's consumption data, over the course of a number of months. The proposed pilot program would require this data to be validated each year, in a shorter timeframe, with enough certainty for the Commission to conclude that the accompanying automatic changes to customers' base rates were just and reasonable.

In addition to the above concerns regarding review time and data validation, adjusting consumption and corresponding rates via advice letter undermines the importance of comprehensively considering all inputs (revenues) and outputs (costs) when authorizing utility rates. Adjusting rates for only one component of one year's

worth of data amounts to single issue ratemaking – a practice that regulators generally seek to avoid. Single-issue ratemaking is the term given to examining only a single issue or select set of issues when establishing overall rates. The opposite—and far more logical and equitable approach—occurs within GRCs or utility applications, where the Commission considers all factors potentially impacting a utility's opportunity to earn a reasonable rate of return. Examining only a year's worth of consumption data yields an incomplete picture of a utility's overall financial opportunities by completing ignoring expenses, capital spending, and other sources of revenue—all of which need to be considered when changing customer rates. Comprehensively examining all relevant information in the context of a larger proceeding is fundamental to establishing just and reasonable rates and should not be abandoned by allowing Cal Am's proposal to proceed.

C. An in-progress multi-utility rulemaking is currently examining this policy issue for all Water IOUs.

The Commission is currently examining the policy issue of more frequent sales forecasting for Water IOUs in the context of a multi-utility rulemaking proceeding, R.11-11-008. Phase II for this proceeding is evaluating "current policies and potential improvements in policies related to…rate structures, including conservation rate design, tiered rates, and other rate-design issues including forecast mechanisms."[159]

The Commission hosted a three day workshop in this proceeding,[160] which included a robust discussion on the benefits and pitfalls of various forecasting mechanisms. The concept of increased frequency of sales forecasting was discussed,[161]

[159] Assigned Commissioner's Third Amended Scoping Memo and Ruling Establishing Phase II, filed Apr. 30, 2015, at p. 2.
[160] Held Oct. 13-15, 2015 at the CPUC.
[161] Workshop transcript days 1 and 2.

including SRMs and a water demand attrition mechanism.[162] A workshop report was issued in the form of workshop transcripts,[163] four parties provided Comments on the Workshop Report,[164] and two parties provided Reply Comments on the Workshop Report[165] - all of which provided further insights and recommendations for Commission policy on more frequent sales forecasting for Water IOUs.

In the workshop and in comments, ORA recommended that the Commission evaluate the results of ongoing SRM pilot studies before making any decisions on how to proceed.[166] This position is consistent with the Commission's ruling in D.15-04-007, quoted above. ORA maintains the same recommendation in this proceeding.

Regardless of whether the Commission ultimately adopts ORA's recommendation on this matter, a decision in this proceeding establishing a pilot program for annual consumption true-ups would preempt a more comprehensive decision in R.11-11-008, which is expected to address this issue for all Water IOUs. Cal Am's request for more frequent sales adjustments should not be authorized at this time, as it may not reflect the outcome of the in-progress multi-utility rulemaking wherein the Commission is considering this concept alongside other broad-scale policy issues.

IV. CONCLUSION

The Commission should deny Cal Am's request for an annual consumption true-up pilot program. The program does not provide significant ratepayer benefits, does not

[162] As presented in the Policy and Planning Division paper "Evaluating Forecast Models" by Richard White.
[163] Issued Oct. 20, 2015.
[164] Filed Nov. 16-17, 2015.
[165] Filed Dec. 7, 2015.
[166] Workshop transcript at pp. 3-4 and pp. 58-59, and ORA Workshop Comments at p. 13.

have significant precedent, was denied in a previous request, and represents a larger-scale policy issue which the Commission is currently examining in a multi-utility rulemaking proceeding.

CHAPTER 4 : REVISIONS TO RULE 14.1.1, CONSERVATION AND RATIONING PLAN

I. INTRODUCTION

Faced with severe drought conditions in the late 1980s, the California Public Utilities Commission ("Commission" or "CPUC") issued Order Instigating Investigation ("OII") 89-03-005, allowing "all classes of water utilities to file a water conservation and rationing plan consisting of two distinct parts: a Rule 14.1 (a "voluntary conservation" program) and Schedule 14.1 (the "mandatory rationing" and penalty program)."[167] "The main objective of Rule 14.1 and Schedule 14.1 was to have a plan readily available for any utility that needed conservation or rationing methods."[168] While the Commission provides a sample Rule 14.1 and Schedule 14.1 and requirements for authorization and notice thereof, utilities are permitted to create their own systems which are responsive to their unique conservation needs.

In Application ("A.") 15-07-019, California American Water Company ("Cal Am") states that is has particular conservation needs beyond drought circumstances which normally prompt activation of mandatory conservation and rationing, including drastic cut-backs in diversions from the Carmel River, required by the State Water Resources Control Board Order 2009-0060 (a cease and desist order, "Carmel River CDO"). Though Cal Am has not yet violated the terms of the Carmel River CDO, the largest "rampdown," or required reduction in diversions, from an authorized 9,945 acre feet annually ("afa") to 3,376 afa, is scheduled to occur this year, with all illegal diversions to be avoided by December 31, 2016.[169]

---

[167] CPUC Standard Practice U-40-W, Procedures for Water Conservation, Rationing and Service Connection Moratoria, at 3, effective Mar. 8, 2014

[168] CPUC Standard Practice U-40-W.

[169] State Water Resources Control Board Order WR 2009-0060, Oct. 20, 2009 ("Carmel River CDO"). Following the issuance of Order WR 95-10 in 1995, which found that Cal Am diverted, on average, 10,730 acre feet per year ("afa") from the Carmel River without valid basis of right, the State Water

Cal Am has been unable to secure increased alternative water supplies or to reduce demands to levels expected by the Carmel River CDO.[170] Thus, Cal Am submits with this Application a proposal to amend the Carmel River CDO; this proposal includes "specific milestones that must be met to avoid further rampdowns in the amounts of water allowed to be pumped from the Carmel River under the [proposed] modification."[171]

Cal Am proposes a number of changes to its Rule 14.1.1, intended to support Cal Am's petition to modify the Carmel River CDO as well as to make the Rule easier for customers to understand.[172] Proposed changes include:

a. Reducing the number of stages in the Rule from seven to four;
b. Redefining events which trigger activation of each stage, allowing for greater flexibility regarding the determination of whether to activate an elevated stage *before* current year-to-date production levels are exceeded;[173]
c. Changes to the implementation of Emergency Conservation Rates;
d. Modifications to the Rule to reflect proposed changes to the residential rate design (discussed in Chapter 1 of this report), particularly with

---

Resources Control Board ("SWRCB") issued a 2009 Cease and Desist Order to stem continuing illegal diversions from the Carmel River of 7,150 afa. As it stands, the CDO requires Cal Am to cease all illegal diversions, reducing total diversions to 3,376 afa, by December 31, 2016. Thus far, Cal Am claims it has met all conditions of the CDO. *See* CAW Direct Testimony of Eric J. Sabolsice at Attachment 1, Proposal to Amend SWRCB Order 2009-0060. However, reductions required during the first seven years of the CDO were minimal compared to the reduction required after the 2015-2016 water year: Cal Am must reduce diversions by nearly 6,000 acre feet in the 2016-17 water year alone. Cal Am refers to this jump in required reductions as a "physical cliff." *See* CAW Direct Testimony of Eric Sabolsice at 3.

[170] CAW Direct Testimony of Eric J. Sabolsice at 6.

[171] *Id.* at 3, Att. 1 Proposal to Amend SWRCB Order WR 2009-0060 at 6.

[172] *Id.* at 3.

[173] *Id.* at 22.

regard to the amounts allowed each customer under mandatory rationing.

II. SUMMARY OF RECOMMENDATIONS

ORA recommends that the Commission adopt Cal Am's proposed modifications to its Rule 14.1.1, with the exceptions of Cal Am's proposals regarding emergency conservation rates and amounts allotted to each customer under emergency rationing. ORA recommends that the Commission require Cal Am to clarify its Rule 14.1.1 to state that emergency conservation rates are activated when Stage 3 of its proposed Rule 14.1.1 is activated. Further, the Commission should require Cal Am to file a Tier 2 advice letter not only when activating an elevated stage, but also when increasing emergency conservation rates from the proposed Level 1 Conservation Rates to the proposed Level 2 Conservation Rates.[174] Finally, the Commission should require Cal Am to clarify that the proposed percentage increases to volumetric rates which constitute the emergency conservation rates do not apply to Tier 1 consumption.

III. DISCUSSION

A. Cal Am's Proposed Implementation of Emergency Conservation Rates is Unclear

Cal Am's direct testimony seemingly contradicts Cal Am's proposed Rule 14.1.1 and Schedule 14.1.1, attached to that direct testimony. As discussed further below, Cal Am's proposed Rule 14.1.1 features two levels of proposed emergency conservation rates, both contained within Stage 3.[175] However, Cal Am's direct testimony states:

[174] *See* Direct Testimony of Eric J. Sabolsice, Att. 4, CAW Proposed Rule 14.1.1, (J)(4).
[175] *Id.*.

> the revised plan would implement emergency rates in two phases during Stage 2 and finally in Stage 4. When triggered during stage 2, emergency rates would affect each tier equally and would increase the price per unit at each tier by 25%. When triggered during Stage 4, again each tier's rate would increase equally by 40%. This stepped approach allows customers time to adjust usage and avoid excessively high water bills immediately after implementation of emergency rates.[176]

As described further below, ORA recommends an approach which would require a Tier 2 advice letter to elevate emergency conservation rate levels, as Cal Am's direct testimony seems to contemplate by requiring elevation of stages to increase rates. ORA recommends that Cal Am's proposed Rule 14.1.1 be modified to clarify that both activation of and increases in emergency conservation rates either require approval via Tier 2 advice letter.

B. The Commission should Require Cal Am to File a Tier 2 Advice Letter to Increase Emergency Conservation Rates

The Commission should require Cal Am to modify its Rule 14.1.1 to require Cal Am to file a Tier 2 advice letter to increase Stage 3 emergency conservation rates from Level 1 to Level 2. CPUC Standard Practice ("SP") U-40-W states that each utility's Rule 14.1 shall address voluntary conservation as well as the procedure for adding and activating a Schedule 14.1 (addressing mandatory rationing), should the occasion arise.[177] The Commission requires that a Tier 2 advice letter be filed when activating Schedule 14.1 mandatory rationing or an increased stage of mandatory rationing.[178]

[176] CAW Direct Testimony of Eric Sabolsice at 24.
[177] CPUC Standard Practice U-40-W at 2.
[178] CPUC Standard Practice U-40-W at 1.

Here, Cal Am's Proposed Rule 14.1.1 states that activation of Stage 2 of Cal Am's Proposed Rule 14.1.1 triggers the activation of Schedule 14.1.1, otherwise dormant until activated by Commission authorization via a Tier 2 advice letter.[179] Schedule 14.1.1 does not explicitly list any stages, though it contains water use violation fines (applied during Stage 2 of Rule 14.1.1) and the emergency conservation rates (applied during Stage 3 of Rule 14.1.1). Further, "[o]nce the Schedule is activated, [the] utility can implement stages of the Schedule by filing a Tier 2 advice letter."[180] However, while Stage 3 is thus activated via Tier 2 advice letter, Cal Am's proposed Rule 14.1.1 requires no additional Commission approval to move from Level 1 conservation rates to Level 2 conservation rates, both encapsulated in Stage 3. Stage 3 of Cal Am's Proposed Rule states the following:

> [[J]4. Schedule 14.1.1 shall be effective in Stage 3 and remain in effect as long as in Stage 3. Customers will have at least 30 days prior notice as to the implementation of the required Level 1 Conservation Rates, or a change from Level 1 to Level 2 conservation rates prior to implementation.
>
> a. Level 1 Conservation Rates comprised of a 25 percent surcharge shall be implemented on the then existing rates for a minimum of 3 months. The surcharge shall not apply to Tier 1 Residential customers.
>
> b. Level 2 Conservation Rates comprised of a 40 percent surcharge shall be implemented on the then existing rate (without the 25 percent Level 1 surcharge) if, after the imposition of Level 1 Conservation Rates for 3 months the monthly production in the California American Water System exceeds the monthly production

[179] CAW Direct Testimony of Eric J. Sabolsice, Att. Proposed Rule 14.1.1 at (I)(3); Schedule No. MO 14.1.1 at (B)(2). *See also* CPUC Standard Practice U-40-W at 8.

[180] Schedule No. MO 14.1.1 at (B)(3).

targets for the previous two (2) consecutive months. The surcharge shall not apply to Tier 1 residential customers.[181]

Because the elevation from one level of conservation rates to the next is functionally similar to a mandatory rationing stage elevation, which requires a Tier 2 advice letter, the Commission should require Cal Am to file a Tier 2 advice letter before imposing the emergency conservation rates level elevation. Cal Am's current Schedule 14.1.1 contains only one level of emergency conservation rates, and thus any increase in rates would be pursuant to Tier 2 advice letter. The current Rule provides that emergency conservation rates would be triggered by exceedance of production limitations. Similarly, the proposed trigger that would elevate rates from Level 1 to Level 2 is the exceedance of production targets.[182] Cal Am states no basis for requiring less Commission review of increases in emergency conservation rates in its Proposed Rule 14.1.1 than was provided for in its current Rule 14.1.1, and in its own testimony supports treating increases in emergency conservation rates as elevations in stages, thus requiring a Tier 2 advice letter.

C. The Commission should Require Cal Am to Clarify that Rule 14.1.1 Emergency Conservation Rate Percentage Increases Do Not Apply to Tier 1 Usage

Cal Am's emergency conservation rates are applied as percentage increases on then-existing tiered rates. In Cal Am's direct testimony, Cal Am states that the percentage increase is applied to "each tier equally."[183] However, Cal Am's Proposed

[181] CAW Direct Testimony of Eric J. Sabolsice, Att. Proposed Rule 14.1.1 at (J)(4)(b).
[182] CAW Direct Testimony of Eric J. Sabolsice, Att. Proposed Rule 14.1.1 at (J)(4)(a) & (b).
[183] CAW Direct Testimony of Eric J. Sabolsice at 24.

Rule 14.1.1 states that the proposed percentage increase "shall not apply to Tier 1 residential customers."[184]

The Commission should Require Cal Am to clarify that Rule 14.1.1 emergency conservation rates do not apply to Tier 1 consumption. Tier 1 widths are set to reflect half of the assumed daily average consumption for each household. Customers should not be penalized for using water for basic human needs, even during times of shortages.

IV. CONCLUSION

The Commission should require Cal Am to file a Tier 2 advice letter in order to increase emergency conservation rates. Such increases in rates should be subject to Commission review with the opportunity for protest. Finally, the Commission should require Cal Am to clarify that the percentage increases in tiered rates required by activation of Stage 3 do not apply to Tier 1 consumption, as such consumption represents the minimum of basic human needs.

[184] CAW Direct Testimony of Eric J. Sabolsice, Att. Proposed Rule 14.1.1 at (J)(4)(a) & (b).

APPENDIX A:
STATEMENTS OF WITNESSES' QUALIFICATIONS

QUALIFICATIONS AND PREPARED TESTIMONY
OF
EILEEN ODELL

Q.1 Please state your name and business address.

A.1 My name is Eileen Odell. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission (CPUC) in its Office of Ratepayer Advocates (ORA) as a Public Utilities Regulatory Analyst.

Q.3 Briefly describe your pertinent educational background.

A.3 I graduated from the University of California, San Diego with a Bachelor of Arts degree in International Studies and Political Science. I later graduated from the Juris Doctor program at the University of California, Hastings College of the Law.

Q.4 Briefly describe your professional experience.

A.4 With the Office of Ratepayer Advocates' Communications and Water Policy branch, I have worked on one prior rate case, analyzing revenues and rate design, and have reviewed advice letters pertaining to Class A water utilities' conservation and rationing plans. Prior to joining the CPUC, I was employed by the Office of Sonoma County Counsel for one year, serving as a Senior Law Clerk. I also was employed by San Francisco Public Utilities Commission for one year. I have served as a Law Clerk for the City Attorney of San Francisco, in its Land Use and Environment team as well as its Public Utilities Commission team.

Q.5 What is your responsibility in this proceeding?

A.5 I am the lead analyst for ORA's review of A.15-07-019 and am responsible for providing testimony on California-American Water Company's request to eliminate its outdoor landscaping allocation in Phase 1 of this proceeding, as well as the rate design and conservation and rationing plan requests in Phase 2, presented in this report.

Q.6 Does that conclude your testimony?

A.6 Yes.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
SUZIE ROSE

Q1. Please state your name, business address, and position with the California Public Utilities Commission ("Commission").

A1. My name is Suzie Rose and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Senior Utilities Engineer in the Communications and Water Policy Branch of the Office of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I received a Bachelor of Science Degree in Civil and Environmental Engineering from the Duke University. I received my Professional Engineer License in Civil Engineering in the State of California in 2014. I joined the Office of Ratepayer Advocates Water Branch in February 2012. My previous relevant professional experience includes working as an Assistant Engineer at East Bay Municipal Utilities District in Oakland, California where I worked from 2001 to 2003 in the Division of Water Recycling and Wastewater Planning, and working as a Consulting Engineer for O'Brien & Gere Engineers in Landover, Maryland for two years, where I specialized in water treatment and distribution. I have previously testified in the California American Water Monterey Peninsula Water Supply Project Application, the California American Water 2015 General Rate Case, and the Golden State Water Company 2016 General Rate Case.

Q3. What is your responsibility in this proceeding, **A.15-07-019**?

A3. I prepared the testimony on the request for an annual true-up pilot program.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
MUKUNDA DAWADI

Q1. Please state your name and business address.

A1. My name is Mukunda Dawadi. My business address is 505 Van Ness Ave, California 94102.

Q2. By whom are you employed and in what capacity?

A2. I am employed by the California Utilities Commission (CPUC) in its Office of Ratepayer Advocates (ORA) as a Public Utilities Financial Examiner.

Q3. Briefly summarize your educational background and professional experience.

A3. I graduated from California State University, Los Angeles with a Master's of Science in Accountancy.

I joined Communications and Water Policy branch of ORA in January 2014 as an Auditor. I have worked on three general rate cases and have analyzed general office expenses, construction work in progress, affiliated transactions and revenue from non-tariffed products and services. I have also analyzed a debt issuance application. Prior to joining the CPUC, I was an accountant in a private courier business for two years.

Q4. What is your responsibility in this proceeding A.15-07-019?

A4. I am responsible for the testimony on amortization of water revenue adjustment mechanism in Monterey district, presented in Chapter 2 of this report.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.